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IN TRAVEL

The Charlotte Observer

SUNDAY, MARCH 18, 2007

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7 U.S. TROOPS SICKENED

350 ill in Iraq chlorine attacks

Bombs appear meant to scare moderate sheiks

BY TINA SUSMAN
AND CHRISTIAN BERTHELSSEN
Los Angeles Times

BAGHDAD — Suicide bombers sent a chilling message to Sunni tribal leaders who have rebuffed al-Qaida, blowing up three trucks loaded with chlorine-laden explosives in Anbar province, the U.S. military said Saturday.

At least two people were killed and more than 350, including seven U.S. troops, were sickened by the noxious clouds.

Since January, suspected Sunni insurgents have waged six attacks involving a combination of explosive devices and chlorine, killing a total of 26 people. One of the bombings was in Ramadi, the provincial capital, in an attack that left 16 dead.

SEE ATTACKS | 4A

THE BIG PICTURE

21A | Four years after U.S. forces invaded Iraq, violence still threatens to unravel Baghdad.

Old-time store all fished out

After 117 years, Byrum's making way for future

The man is back to buy the display case for the knives. Robby Byrum hustles from behind the counter, across pine floors stained black with 117 years of boot-dirt.

He's ready to deal.

"It's \$50 for the case," he says, taking the last knives from the case. One knife is still boxed up.

The buyer, Darby Hallman, is a knife collector. He eyes the box. "You got something I need?" he says.

"Just this little bone-handled thing for \$25. It's worth \$50. It ain't antique, but it's probably had a birthday or two."

Hallman gives the knife a look, does the numbers in his head.

"Well, I'll take it then."

"If everything goes that quick," Byrum says, "we'll be out of here before too long."

Byrum's General Store has lived on this spot in southwest Mecklenburg County since 1890.

SEE TOMMY | 8A

Online Extras

Watch video from the store and hear Tommy tell its story at WWW.CHRLOTTE.COM/news

Observer Investigation
A builder sold some families starter homes they couldn't afford.
The federal government backed the loans.
Now a neighborhood is suffering.

Sold a nightmare



CHRISTOPHER A. RECORD - OBSERVER PHOTOS

Lea and Mark Tingley look over mortgage papers at their home in the Southern Chase subdivision. They struggle to make their monthly payments. They would like to sell but can't. "We owe more on the house than what we can sell it for," Lea said.

Online Extras → The Tingleys show construction problems with their home. WWW.CHRLOTTE.COM

FINDINGS OF OUR 4-DAY SERIES

Beazer strategy led to problems

- The company sometimes crossed the line between selling to people who could barely afford homes and selling to people who couldn't.

Backed by the federal government

- Most Beazer buyers used loans insured by the Federal Housing Administration. Loose standards allowed some to borrow more than they could afford.

Other Beazer developments ailing, too

- Ten Beazer developments in Mecklenburg County have higher foreclosure rates than Southern Chase.

More problems in Mecklenburg County

- About three dozen starter-home developments across the county have foreclosure rates of 20 percent or more.

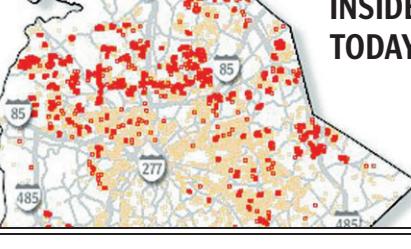


406 houses sold in the Southern Chase subdivision between 1997 and 2004.

77 foreclosures among original home buyers in the neighborhood.

HOW ABOUT YOUR NEIGHBORHOOD?

Online map allows you to scan Mecklenburg developments for foreclosures at WWW.CHRLOTTE.COM



INSIDE TODAY

- 2A | Editor Rick Thames: This affects you.
- 13A | Debts, income wrong on applications.
- 14A | Map shows Southern Chase foreclosures.
- 14A | How homeowners got into trouble.
- 14A | Home builder responds.
- 15A | Tingleys' home had code violations.

Partly cloudy

Low: 26. High: 55.

Chilly with sun

today. Warming up on Monday. Forecast, 8B.

INSIDE

Business | 1D

Give your refund a boost

New laws offer ways to save money on your taxes, due in a month. One example: up to \$60 if you ever make long-distance phone calls.

Nation | 9A

Cat and dog food recall

The maker of 48 brands of dog food and 40 brands of cat food issued a recall after pets got sick across the country.

- Arts & Living ..1E Horoscope.....6E
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THE ESCAPE
THE WOODS

One home saved by a 2nd income

Chris Wood says he nearly lost his home. He could not afford the monthly mortgage payments.

He was saved by a woman with a steady job.

"I met my wife before I got in too much trouble," he said. "If I hadn't met Amy... I would have moved back to an apartment and tried to start over."

Wood was 20 when he paid \$99,000 for a home in Southern Chase in May 2001. He had always lived in apartments.

He worked maintenance in an apartment complex. Beazer marketed its homes to the tenants. It offered bonuses to employees for referring tenants. It took employees including Wood on a tour of a local subdivision.

One week later, he drove out to Southern Chase. "I went in thinking, 'I don't make enough money. I'm making \$9 an hour,'" Wood recalled.

He was startled when a Beazer employee told him he could afford a home. He borrowed \$500 from his grandmother to make the deposit.

As it turned out, he didn't make enough money. Wood's final loan application misstated his income and debts. Without the misstatements, he did not appear to meet FHA's requirements for the loan he needed. (See *The Loans*, below.)

He was suddenly spending 45 percent of his income on debt payments each month. He was in trouble almost instantly.

Enter Amy. The couple met, fell in love and married in 2004. They lived in Southern Chase for a few years, then decided to rent the home and move to a better neighborhood.

The house they bought was built in 1964.

"Everybody besides us has been there a long time," Amy Wood said. "And I don't fear to walk outside." — BINYAMIN APPELBAUM



YALONDA M. JAMES - yjames@charlotteobserver.com

Chris Wood couldn't afford his house payments. Then he met his wife, Amy. They avoided foreclosure. Later, she said she could see seven foreclosed homes from their front porch.

Online Extras

Chris and Amy Wood talk about how he got the loan for his home. WWW.CHRISTALTE.COM

WHAT IS A FORECLOSURE?

When a homeowner falls behind on mortgage payments, the lender can ask a court to seize the home and sell it to cover the debt.

Lenders asked courts in North Carolina to foreclose a record 45,500 homes last year, more than double the number in 2000.

Roughly half these filings end with an actual foreclosure. The remaining owners repay the loan by selling or refinancing, or file for bankruptcy, or strike a deal with the lender.

WHAT IT MEANS TO YOU

Foreclosed owners lose their home, their neighborhood, their investment. Borrowing money becomes very hard and very expensive.

Some homes sit empty. Others become rentals. Communities are destabilized. Neighboring homes lose value. Crime sometimes rises.

Local governments lose property tax revenues. They also pay to process the foreclosure, and for public safety issues associated with vacant buildings. Their average cost runs into thousands of dollars, according to a 2005 study by Harvard University researchers.

CONTACT US

Lost your home?
Struggling to hold on?
Live in a neighborhood plagued by foreclosures? We'd like to hear your story. Contact bappelbaum@charlotteobserver.com or 704-358-5170.

THE LOANS

Data wrong on some applications

BY BINYAMIN APPELBAUM

bappelbaum@charlotteobserver.com

Some residents of Southern Chase declined to share their loan documents with the Observer. Some didn't have records to share. One woman said she burned her papers because she was angry.

But financial documents provided by four families, including Lea and Mark Tingley, show their loans were arranged by Beazer Mortgage based on misstated debts or income. In each case, it appears the applicant actually did not meet the requirements for an FHA loan.

FHA rules required Beazer to document applicants' income and debts.

Knowingly falsifying information on a loan application is a federal crime.

Documents show the final version of Chris Wood's loan application overstated his monthly income by \$150, as if he had received a 7 percent raise, and understated his monthly car payment by \$93. The correct income appears on Wood's W2 tax form, and the correct car payment on his credit report.

The misstatements allowed Wood to barely meet the requirements for the loan he needed.

Wood received the final loan application at the closing table. He says he didn't read it. He says he should have. But he says he gave Beazer the correct information, and had no reason to believe anything had changed.

"I was trying to be honest about it," he said. "If they couldn't approve me, I didn't want it."

The monthly income shown on Lisa Hernandez's final loan application is \$344 more than the income shown on her tax forms. She said she had not noticed the difference before the Observer pointed it out.

Calvin and Margie Cerdas omitted debts from their loan application that they listed in a bankruptcy filing two years later. The Cerdas say they agreed to pay the debts before applying for the loan, but they didn't.

Three applications carry the name of Janette Parker, the head of Beazer's Charlotte mortgage office. She referred questions to company headquarters in Atlanta. The company did not respond to questions about particular loans in Southern Chase but said it followed all laws.

Three of the loans were approved and funded by National City. The Cerdas' loan was approved and funded by Homestar Mortgage. All of the loans were insured by the FHA.

National City said in a statement, "We have a strong track record of underwriting loans in accordance with FHA's established guidelines."

Homestar, now Opteum Financial, said in a statement that it stopped accepting loan applications from Beazer in 2005 because of "the long-term performance of (those) loans."

The Department of Housing and Urban Development, which administers the FHA program, told the Observer it was not aware of the problems in Southern Chase and did not plan to investigate the loans it insured for buyers there.

Foreclosure from IA

The company said in a written statement that the foreclosures were mostly due to economic difficulties experienced by the buyers.

"Beazer is committed to providing quality homes of superior value," the letter read in part.

The company's CEO, Ian McCarthy, declined to speak with the Observer.

The Federal Housing Administration, which insured most of the mortgage loans, failed to address the problems. The government has paid more than \$5 million to cover defaulted loans in Southern Chase. It continues to insure new Beazer loans.

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Demand 'hot as a match'

The night before Southern Chase opened in 1997, people camped outside the sales office, waiting to pick the best lots.

Home prices started below \$80,000, roughly half the Charlotte-area average. Demand was "hot as a match," said Barry Helms, the sales agent who greeted them. He remembers selling six or seven homes the first day.

The unusually low prices were a strategic decision for Beazer. Too many companies were building homes in the Charlotte area for traditional first-time owners, the company said in its 1997 annual report. Beazer's answer was to build and sell homes for less.

Beazer also was responding to opportunity. The federal government was pushing to expand home ownership. It was encouraging mortgage lenders to relax standards, to make loans available to many lower-income families for the first time. The FHA offered to insure the loans. If the borrower didn't pay, the government would.

Beazer, which operated in the Carolinas at the time as Squires Homes, chose a site off N.C. 49 in Concord, where land was still relatively cheap.

The subdivision is 15 minutes from Lowe's Motor Speedway, so Beazer gave racing names to the streets: Winners Circle, Rockingham Lane. It built vinyl-sided homes on small lots, mostly one story, an average of 1,327 square feet.

Contractors did the building. Beazer focused on marketing. It held pizza parties at nearby apartment complexes. It took tenants to see homes.

"We believe in the dream," read a Beazer flier distributed to apartments in Concord. "We believe that everyone deserves to own their own home."

But as the company pushed to find new buyers, it increased

crossed the line between selling to people who could barely afford homes, and selling to people who couldn't.

Plunging in

Lea and Mark Tingley were not looking to buy a home in early 2001. They had little savings.

Lea made \$11 an hour weighing trucks at a Martin Marietta rock quarry. Mark made a little less as a forklift operator at a building supply store.

They heard about Southern Chase from Lea's brother, who had just put a deposit on a home there. If he could afford a house, Lea recalls thinking, I can, too. The Tingleys drove out the next day from their Concord apartment.

They say the sales agent told them Beazer would arrange the down payment. The company also would arrange a mortgage. It would even help with the monthly payments for the first two years.

► 14A | Details on how Beazer assisted with the financing for Southern Chase home buyers.

Lea remembers the sales agent saying, *Let's just do this. You're pregnant. You need a home of your own.*

She returned the next day with a \$600 deposit.

The company spent about \$9,000 on financial incentives for the Tingleys, including the

down payment, most of the closing costs and help with the mortgage payments. The company offered similar financial incentives to most buyers from 2001 to the end of sales in 2004.

As Beazer's costs rose, the company raised the price of new homes in Southern Chase by an average of 10 percent per square foot between 2000 and 2002. That was twice the price increase for similar homes elsewhere in Cabarrus County.

The model the Tingleys purchased, the Talladega, had a base price of \$96,490 on a 1999 price sheet. By 2001, Beazer had raised the base price for the same model with the same square footage to \$108,990.

Buyers needed larger loans to pay the higher prices. Beazer arranged the loans through a subsidiary, Beazer Mortgage, which acted as a mortgage broker, matching customers with lenders for a fee of several thousand dollars. From 2001, Beazer Mortgage arranged loans for 84 percent of the buyers in Southern Chase.

Almost all of the loans were insured by the Federal Housing Administration. That meant Beazer and the lender had little to lose if the borrower could not afford the loan.

Beazer assured borrowers it was acting in their interest.

One buyer saved a brochure from Beazer's mortgage business that reads in part, "There are no salespeople in this office. The people you work with are

working for you, to secure the best possible deal on your behalf."

Costly loan maneuvers

The Tingleys moved into their new home in April 2001. Lea cleared out her 401(k) to pay \$2,500 toward closing costs.

The keys came in a manila envelope with instructions on the front:

1) Dump on table.

2) Place key on ring.

3) Do the "Happy Dance" (Jump up and down shouting wildly.)

The thrill did not last.

Lea had applied for the loan without Mark because he had credit problems.

She omitted from her application a monthly payment of \$350 on a leased Dodge Avenger.

Lea said a Beazer employee told her to do it because the application also didn't include Mark's income.

"At the time it made sense to me and I was just excited about owning the home," Lea said. She says she knows she shouldn't have omitted the payment, but she trusted the employee.

Loan documents show that Beazer Mortgage prepared a final version of Lea's application before the closing. On that final version, Lea's monthly income was overstated by \$187. It had been correct on the original application Lea signed. It is un-

A subdivision's fast fall

Cover Story

CHRISTOPHER A. RECORD - OBSERVER PHOTO

At first glance, Southern Chase looks like a typical neighborhood. But up close, the young development "looks like it's already 40 years old," a building inspector said.

Foreclosure from IA

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"Beazer is committed to providing quality homes of superior value," the letter read in part.

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The model the Tingleys purchased, the Talladega, had a base price of \$96,490 on a 1999 price sheet. By 2001, Beazer had raised the base price for the same model with the same square footage to \$108,990.

Foreclosures happen at the crossroads of two problems: A mortgage that can't be paid and a home that can't be sold.

Here's how it often happened in Southern Chase ...

NO MONEY DOWN: WHY IT LEAVES BUYERS VULNERABLE

THE RULE: The FHA requires the borrower to make a 3 percent down payment. This shows the borrower has savings. It also gives them a stake in the house.

Sidestepping the rule: Many borrowers in Southern Chase had minimal savings. So Beazer gave the funds to specialized nonprofits, which gave the money to the buyer. The FHA allowed the practice, though it undermined the purpose of the rule.

How buyers got hurt: Beazer incorporated the cost of the down payment into the price of the home, according to a Beazer sales document obtained by the Observer and a former Beazer employee. That left buyers with no equity.

Postscript: Beazer passed money to more than 50 buyers through the OWN Program and its parent company, Affordable Housing Concepts. In 2003, the FHA barred Affordable Housing from giving money to buyers.

A 2005 federal report found builders routinely raise prices when they provide down payments.

In 2006, the IRS said it was reviewing the non-profit status of companies that pass money to buyers.

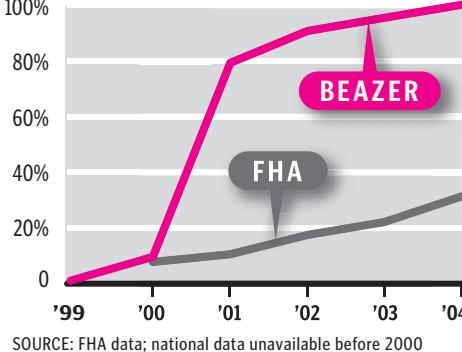
The FHA continues to allow the practice. Beazer continues to provide down payments for buyers in the Charlotte area.

Beazer said: "Down payment assistance has been used by many builders marketing to first-time buyers. These programs were all approved by the Federal Housing (Administration) and subject to FHA guidelines. The program was not unique to Beazer and provided future homeowners an opportunity to save money." — BINYAMIN APPELBAUM



DIEDRA LAIRD - dlaird@charlotteobserver.com

From 2001 through the end of sales in 2004, Beazer provided down payments for 85 percent of its 155 FHA borrowers. Less than 20 percent of FHA borrowers nationwide got this type of down payment help.

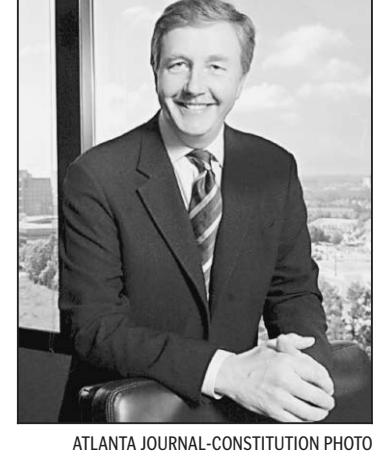


A BUYER'S STORY Aaron Mahatha (above) and his wife, Karen, bought a home for \$125,000 in December 2001. It was their first home. The couple could not afford the required down payment of \$3,750.

Documents show Beazer gave the \$3,750 to The OWN Program, a Florida nonprofit. It paid OWN \$300 to pass the money to the Mahathas. The Mahathas signed a statement saying it didn't come from Beazer.

The tax value of the Mahathas' home on Trestle Court has since dropped from \$125,000 to \$110,000. "We're just paying rent," Aaron Mahatha said.

They would like to sell, in part because they can't afford the payments. But they owe more than they could get, and they still have only minimal savings.

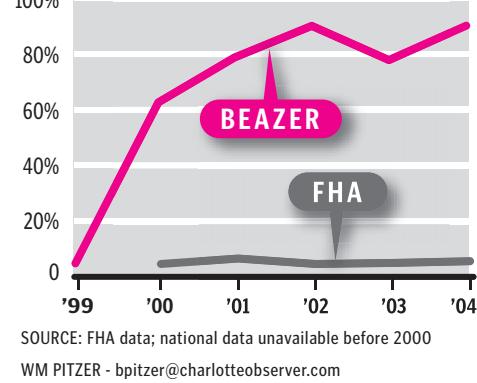


ATLANTA JOURNAL-CONSTITUTION PHOTO

Beazer Homes USA Chief Executive Ian McCarthy leads a company that made \$389 million last year.

LOW INTRODUCTORY PAYMENTS: HIGHER PAYMENTS LATER

From 2001 through the end of sales in 2004, Beazer helped with mortgage payments for 83 percent of its 155 FHA borrowers. That compares to roughly 6 percent of FHA borrowers nationwide.



THE RULE: In general, the FHA allows borrowers to spend 41 percent of pre-tax income on debts including a mortgage. A person's maximum monthly payment determines how much they can borrow.

Sidestepping the rule: Beazer qualified buyers for larger loans by paying part of their monthly bill during the first and second years of the loan. The deal, called a buydown, allowed Beazer to calculate the maximum loan based on the combination of its payment and the borrower's payment.

How buyers got hurt: The FHA allowed buydowns only if the lender documented the borrower likely could afford the increased payments. For example, a couple moving to a new city for the wife's new job could get a larger loan before the husband found a job. But borrowers in Southern Chase often struggled. By the third year, some were spending more than 50 percent of their income on debts.

Postscript: The FHA closed the loophole in 2004. Lenders can no longer increase the size of an FHA loan by helping with the borrower's payments. Beazer's use of buydowns in the Charlotte area dropped from 82 percent of loans in 2004 to 6 percent by 2006.

A 2006 government audit of some Beazer loans in the Charlotte area included a 2004 loan from Southern Chase. The government said Beazer failed to document the bor-

A BUYER'S STORY Marian, who asked that her last name not be printed, made \$2,885 a month before taxes in 2003 and paid \$515 on debts, documents show. That limited her monthly mortgage payment to \$673, and her maximum loan to \$97,000. That wasn't enough to buy the house she wanted. So Beazer chipped in.

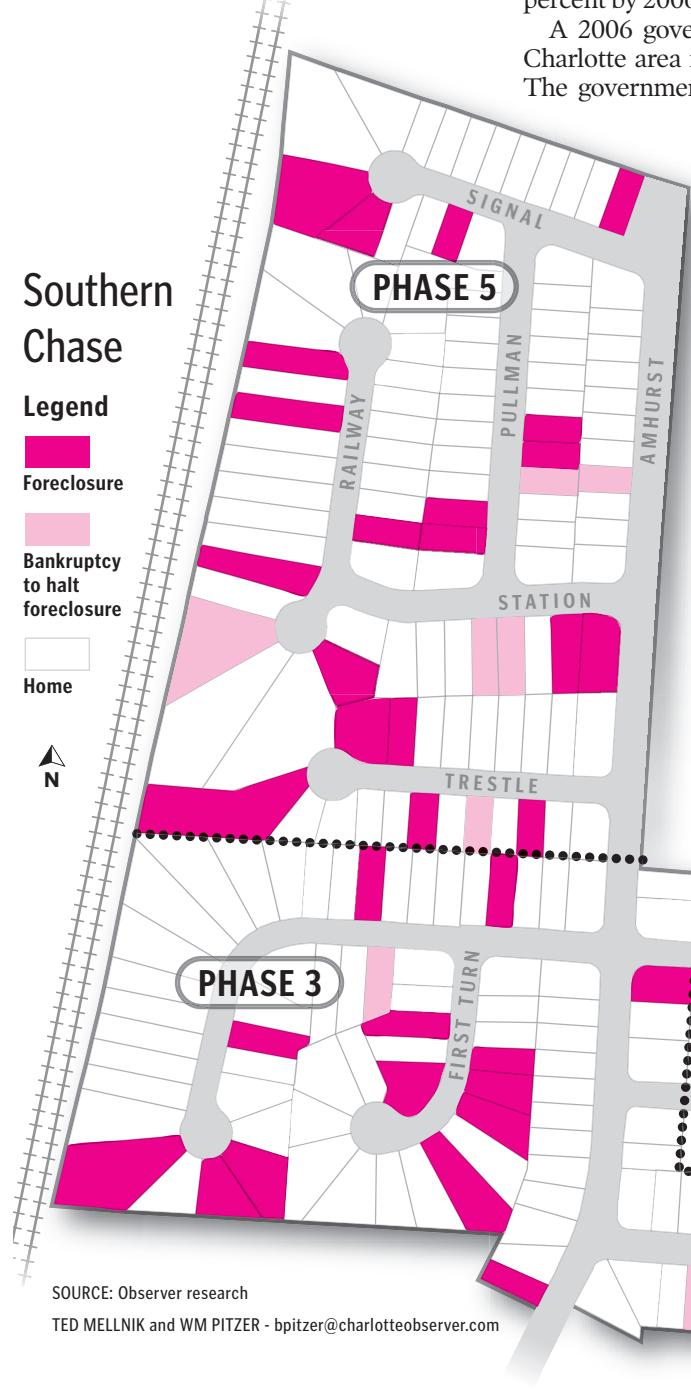
Marian paid \$632 a month during the first year of her loan. Beazer paid \$139. The combination allowed her to buy a home for \$115,000 in July 2003.

Marian's income did not grow during the two years Beazer helped with the mortgage. By the third year, her monthly payment reached \$864. Debts consumed 48 percent of her income, far more than the FHA intended. She is struggling to make payments and to keep her home.

rower could afford the payments in the third year.

Buydowns remain a common feature of subprime loans, and are advertised by several local builders.

Beazer said: Buydowns "provide people, who otherwise may not qualify, the opportunity to purchase a home. Beazer Homes may have, on aggregate, offered more buydowns ... as we were focused on serving the first-time buyer." — BINYAMIN APPELBAUM

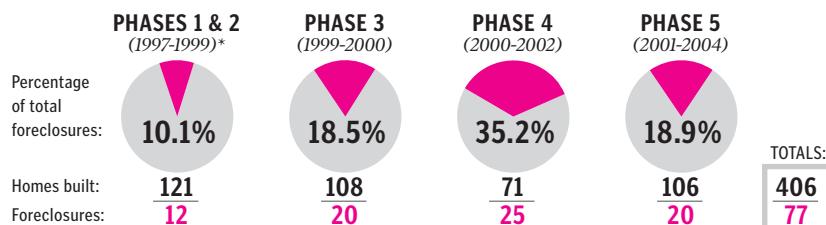


The map does not include two foreclosures involving subsequent owners, nor several bankruptcy filings that did not directly halt a foreclosure proceeding.

THE DAMAGE: LATER PHASES SUFFERED MOST

Of the 406 original buyers in Southern Chase, 77 lost homes to foreclosure and at least an additional 12 filed for bankruptcy protection to stave off foreclosure. The problems were concentrated in the third, fourth and fifth phases, where Beazer arranged most of the loans and charged higher prices for the homes.

Foreclosures by Phase Nineteen percent of the original buyers in Southern Chase have lost their homes to foreclosures. That's likely to increase. Lenders have filed to foreclose several additional properties.



*Ten homes in Phase 1, including the model homes, sold at the end of development.

Online Extras

Click on an interactive map showing the status of the homes in Southern Chase at WWW.CHRISTIE.COM

THE RESPONSE

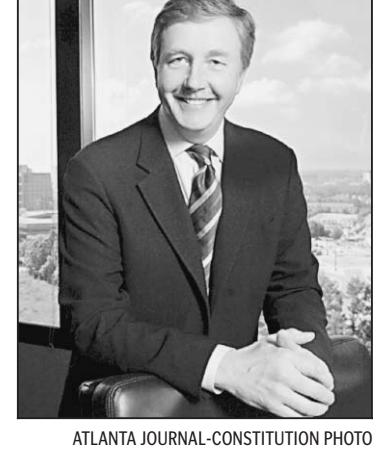
Beazer says it followed the law

It says lenders give final loan OK, foreclosures linked to the economy

In a written statement, Beazer Homes USA acknowledged the foreclosure rate in Southern Chase is relatively high.

The company, based in Atlanta, said some foreclosures were normal in a starter-home neighborhood, and some foreclosures resulted from economic difficulties experienced by buyers. It said some residents were employed in the textile and tobacco industries, which cut workers in recent years.

Beazer, which ranks among the nation's 10 largest home builders, said its practices in Southern Chase were in line with industry standards, including arranging loans for most buyers and offering financial incentives.



ATLANTA JOURNAL-CONSTITUTION PHOTO

Beazer Homes USA Chief Executive Ian McCarthy leads a company that made \$389 million last year.

The company in 1996 created a subsidiary, Beazer Mortgage, to act as a mortgage broker for buyers in its subdivisions.

The statement emphasized that Beazer does not make final approval decisions about the loans it arranges. Those decisions are made by the company that provides the money. In Southern Chase, two-thirds of the loans arranged by Beazer were approved and funded by National City Corp. of Ohio.

Beazer said its mortgage subsidiary complied with the law and that its operations were carefully monitored. It also said customers were informed of loan terms, and they signed documents indicating understanding and acceptance of features such as an interest-rate buydown or down payment gift.

Beazer's chief executive, Ian McCarthy, declined to speak with the Observer. McCarthy took the company public in 1994 and remains in charge. His focus on starter homes has been lucrative. The company made \$389 million last year. Its stock price has increased fivefold over the last decade. In 2005, Beazer cracked the Fortune 500.

The company entered the Charlotte market in 1987 with the purchase of Squires Homes. Beazer ranked among the largest builders in the Charlotte area over the last decade. The company is currently building in 14 local subdivisions. It plans a development near Bank of America Stadium, where the Coffee Cup restaurant stands. — BINYAMIN APPELBAUM AND LISA HAMMERSLY MUNN

THE SERIES CONTINUES

Monday: The number of foreclosures in Mecklenburg County has spiked to record levels since 2003, almost entirely because of foreclosures in starter-home subdivisions. ■ With tips for first-time buyers.

How We Did This Series

The Observer examined Cabarrus County property deed and sale records, building permits, records from state court and federal bankruptcy court, and Federal Housing Administration data on FHA loans in the Charlotte region. Reporters interviewed more than 50 present and former neighborhood residents. Some provided financial records related to their home purchase. Reporters also interviewed government officials, housing industry experts, consumer advocates and participants in the housing industry.

**THE IMPULSE BUY
THE VERRIERS**

Jason Verrier and his then-wife had a plan for buying their first house.

They bought a mobile home. They would live there for a few years and save money for a down payment.

Then, driving past the entrance to Southern Chase, she saw a sign: "\$1 down gets you in."

In February 2002, the Verriers bought a one-story home there for \$106,000. They paid \$1 of their own money. Beazer provided the down payment and paid the closing costs.

The "dollar down" sign appeared in late 2001 or early 2002, residents recall. No one is exactly sure. Beazer declined to comment.

Studies show a lack of savings is the main reason lower-income families can't buy homes. Beazer removed that final obstacle. Buyers made a \$500 deposit and got a check for \$499 at closing.

"It was like an impulse purchase," said Lisa

Hernandez, another buyer in Southern Chase. "You come down here and they're like, 'You need to pay \$1.' I said, 'Great, we'll take it.'

But homes bought easy were sometimes hard to keep. Loan payments rose. Property values fell.

"A lot of people could afford \$1," Jason Verrier said, "but they couldn't afford the home."

Verrier was luckier than most. He makes good money as an electrician. While 84 percent of buyers got their loans through Beazer Mortgage in the later years of sales, he borrowed from Bank of America.

He rues the state of the neighborhood. He is angry that his home is falling apart. He wants to move but can't sell for enough to make the down payment on a better home.

"I can't complain too much," he said. "I was stupid enough to buy here." — BINYAMIN APPELBAUM



DIEDRA LAIRD - d.laird@charlotteobserver.com

Jason Verrier lives on Rockingham Lane, a street with 19 foreclosures. "I'm just trying to keep my home from having one of those colored (foreclosure) notes" posted on the door, he said.

COVER STORY

Fast fall of a subdivision

Beazer from 13A

clear when the number changed. FHA rules required Beazer to document the borrower's income and debts. Lea's credit report and W-2 show the accurate numbers.

Knowingly falsifying information on a loan application is a federal crime.

Lea says she didn't notice the change until the Observer pointed it out this fall.

The company did not respond to The Observer's written questions about the loan.

The changes allowed Lea to qualify for the loan she needed.

But in the summer of 2001, three months after buying the home, Lea called the dealership and asked to have the Avenger repossessed. She could not afford the car and the mortgage.

Buydown balloon inflates

The Tingleys' monthly mortgage payments started low because Beazer had agreed to pay part of the bill for two years. The company arranged similar deals, called interest-rate buydowns, for 146 other buyers in Southern Chase.

Under FHA rules at that time, paying part of the loan allowed Beazer to arrange larger loans than buyers could otherwise get. But Beazer had to document that buyers likely would have enough money to make the full payment by the third year. The Tingleys say they were never asked.

Other buydown recipients in Southern Chase included a clerk in an accounting office, a nursing home assistant and a trash collector. There was little chance their income would increase sufficiently. They also say they were never asked.

In June 2002, the Tingleys' monthly mortgage payment climbed from \$675 to \$744. Their income did not keep pace. Mark had quit work to care for the couple's daughter. They were unable to pay the full amount.

One year later, the monthly payment went up again, to \$856, and the Tingleys fell further behind.

The bank that made the loan, National City, let them keep the home — but only if they made larger payments to catch up.

They sold their furniture and replaced it with furniture from Goodwill. They sold gold coins given to Lea by her father. They ate Oodles of Noodles and lots of peanut butter.

They held on. Many of their neighbors did not.

2004 was the first year in which many buyers were making a full mortgage payment without Beazer's help.

The overwhelmed owners might have sold their homes to pay their debts. But prices in the neighborhood had dropped.

Too many homes were for sale. Foreclosed homes were available for 80 cents on the dollar. There were newer subdivisions nearby.

Many remaining residents owed more than they could sell their homes for, and they lacked

Fewer Problems in Earlier Phases

Southern Chase was built in five phases.

The earlier phases have fared better. Prices started lower and most loans were arranged by companies other than Beazer.

The county says sales prices in the subdivision increased in recent months. Most of the sales were in the early phases.

The later phases, mostly built after 2001, have suffered the most problems. The Tingleys live in the fourth phase.

At least six foreclosures are pending against homes in the fifth, most recent, phase.

(See map, facing page.)

the savings to pay the difference.

Martin and Jill Higginbotham tried to sell their home for two years after Martin took a job in Tennessee. Finally, Martin mailed in the keys and called the lender.

"Do what you have to do," he remembers saying.

The lender foreclosed in early 2004. Twenty-nine other owners lost their homes that year.

Mark Tingley took a part-time job. An auction house paid him to tend three foreclosed homes once occupied by his neighbors.

Can't afford to stay or go

The Tingleys had a plan when they moved to Southern Chase. They would sell after five years and move to a larger home.

By last fall, their daughter was 5, their son was 3 and the 1,410-square-foot house felt small. But the Tingleys owed more than \$115,000 on a house valued for tax purposes at less than \$108,000.

They talked with real estate agents, who quoted even lower prices.

The Tingleys were struggling to pay their mortgage. The monthly bill had climbed to \$1,091, including catch-up payments. They didn't have the savings to sell the home at a loss.

"We can't afford it, we can't sell it and we're hurting ourselves just trying to keep it," Lea said.

Her credit has become so bad she said she can't open a bank account.

She and Mark worry they will lose the home the next time they fall behind on the mortgage payments.

They worry the home is falling apart: There is mold in the carpet where it meets the walls. Vinyl siding is cracking and popping. Wooden trim is rotting.

They could walk away and accept foreclosure.

But they say they're not ready.

They worry most of all that this will be the last home they ever own.

BY BINYAMIN APPELBAUM
bappelbaum@charlotteobserver.com

THE CONSTRUCTION

House had code violations



CHRISTOPHER A. RECORD - OBSERVER PHOTO
Mark Tingley points out rot on the outside of his home in Southern Chase. A building inspector hired by the Observer found mold in the carpets and moisture along the inside walls of the Tingley's home.

Cabarrus inspector: Approval by department was a mistake

Lea and Mark Tingley's house never should have been issued a certificate of occupancy, the chief building inspector for Cabarrus County told the Observer.

The house had code violations that were missed when the certificate was issued in 2001, said Scott McAnulty. He said the department lacks the resources to inspect every new home at all the necessary moments in the construction process.

The wooden walls of the Tingley home start too close to the ground, McAnulty said. The same problem can be seen in other homes in the neighborhood, he said.

Robert Boucek, a building inspector hired by the Observer, said poor landscaping allows water to pool outside many of the homes. That's not a building code issue, but the combination means the wood soaks up the water. The result is rot and mold, Boucek said.

Boucek found mold in the carpets and moisture along the inside walls of the Tingley home.

Boucek also noted vinyl siding nailed on too tightly; shingles that overhang the roofline, making cracks and leaks more likely; and untreated wood used on the outside of homes.

The effect, Boucek said, is a young neighborhood that "looks like it's already 40 years old."

In a written response, Beazer defended its products.

"Beazer adheres to stringent building standards and follows strict processes, reviewing construction activity on a constant basis," Beazer wrote. "Each home undergoes a series of quality inspections and is reviewed and approved by government building officials."

The company said it had not received "a significant number of warranty issue-related calls from homeowners in the Southern Chase community."

— BINYAMIN APPELBAUM AND LISA HAMMERSLY MUNN

THE PRICES

Homes with Beazer loans cost more

Prices approved by appraisers didn't hold up over time

BY BINYAMIN APPELBAUM
bappelbaum@charlotteobserver.com

People who bought a home in Southern Chase with an FHA loan arranged by Beazer Mortgage paid higher prices on average than other buyers in the subdivision.

The contrast was sharpest with the prices of 28 homes bought with loans insured by the Veterans Administration. The price of homes bought with Beazer FHA loans averaged 6 percent higher per square foot than the VA homes, adjusting for the year of sale.

The prices have not held up.

In 2006, Cabarrus County assigned a lower tax value than the original sales price to two-thirds of the 229 homes purchased with Beazer FHA loans.

The county assigned lower values to only a quarter of the 177 homes purchased with other kinds of loans.

Appraisers validated the higher prices.

Lenders rely on appraisers to confirm a property is worth at least as much as the mortgage loan. That protects the borrower and the lender: If the borrower can't pay, the home can be resold to pay the debt.

Intentionally overstating the value of a home on an appraisal is illegal.

When Beazer arranged an FHA loan, it hired the appraiser. But for VA loans, the appraiser is assigned by the government. That helps to ensure the lender doesn't influence the appraiser's opinion.

A Davidson appraiser, Elizabeth Smith, said she worked regularly for Beazer. She said she appraised 15 homes in the neighborhood in 2003, but she was not sure how many homes she appraised in earlier years. Beazer arranged 16 FHA loans

in Southern Chase in 2003, records show.

Appraisal documents are not public records, but the Observer obtained a complete appraisal signed and stamped by Smith from a Southern Chase resident. It was reviewed at the Observer's request by Bob Ipock, a Charlotte-area appraiser who reviews other appraisers' work for lenders.

Ipock, a state-approved appraisal instructor, has testified before the N.C. General Assembly that he believes appraisal inflation is a major problem.

Ipock documented two factual misstatements and also procedural problems, which he said raised the value of the appraised home. For example, Smith cited the sales price of a similar home as evidence of the appraised property's value.

The price she quoted is 7 percent above the price listed in county records for the only sale of the same home.

The appraisal also misstates

the description of a second home.

Smith said the first mistake was a typographical error. She said she meant to cite another home in the same subdivision. She said she was confident the second mistake was fixed.

Smith declined to identify the address of the other home, and the Observer could not identify any property that matched her description. Smith also declined to explain why both errors appear on a final appraisal provided to the home buyer, or why, if any corrections were made, they did not affect the appraised value shown in FHA records.

Smith said she is confident her appraisals are accurate and fair. She says she was never pressured by Beazer to raise home values, and never would have done so.

"I stand by my appraisals," Smith said. "They were underwritten. They met legal standards. They met FHA standards."



The Charlotte Observer

MONDAY, MARCH 19, 2007

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www.charlotte.com

C D E F • | Price varies by county | 50¢

Looking Ahead

TODAY Partly cloudy 28 / 61	TUES. Mostly cloudy 44 / 72	WEDS. Mostly cloudy 49 / 59	THURS. Mostly cloudy 46 / 67	FRI. Partly cloudy 48 / 74

Complete WCNC Forecast, 6B

On the Internet | 2A

Move over, Oscars ...

YouTube will host the first awards for the best user-created videos of 2006. The awards will be handed out in seven categories, including best comedy and most inspirational. Also, MySpace.com says it will create a Web site to be used for the 2008 presidential election.



Sports | 1D

Johnson outruns Stewart

Jimmie Johnson beat Tony Stewart in a duel through the last laps of Sunday's race in Atlanta. Juan Pablo Montoya finished fifth, by far his most impressive run so far on a NASCAR oval track.



Nation & World

■ FAMED MUSIC PRODUCER PHIL SPECTOR goes on trial today in California for a death that occurred at his mansion. | 5A

■ WALTER REED REPAIR CONTRACT was delayed for years by bureaucratic squabbling. | 4A

Charlotte & the Region



■ TALLEST COASTER AT CAROWINDS closed following a test run that malfunctioned with employees on it.

| 1B

■ VIDEO POKER PHASEOUT reached another deadline in North Carolina this month.

| 1B

■ SEE WHO is in today's Carolina People. | 3B ▶



Business | 8A

■ GAS PRICES WILL LIKELY NOT JUMP to \$3 a gallon this summer, experts say.

■ BUSINESS COLUMNIST DOUG SMITH ON "naked flats" in the Optimist Park neighborhood of Charlotte.

Coming Tuesday | Health & Family

College Countdown: Tours

COLUMNIST OFFERS ADVICE ON MAKING THE MOST OF CAMPUS TOURS.

Business.....	8A	Horoscope.....	5D
Classified.....	1E	Living Here.....	1D
Comics.....	4D	Movies.....	3D
Editorial.....	12A	Obituaries.....	4B
		TV.....	3D

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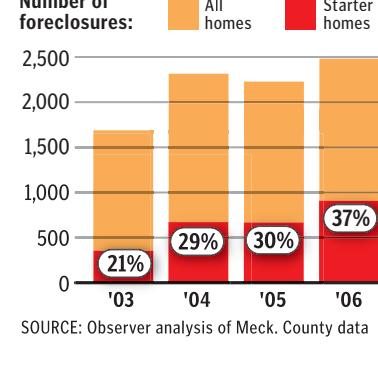
[Sold a nightmare ■ PART TWO OF FOUR]

Starter homes, sad endings

Number of foreclosures climbs as 1st-time buyers lose low-priced houses

Mecklenburg Foreclosures

Spike in foreclosures since 2003 largely the result of starter-home failures.



BY BINYAMIN APPELBAUM,
LISA HAMMERSLY MUNN
AND TED MELLNIK
Staff Writers

A wave of loan defaults in starter-home developments is pushing the foreclosure count in Mecklenburg County to record heights, an Observer analysis shows.

Lenders foreclosed last year on more than 900 Mecklenburg starter homes, up more than 150 percent since 2003. Foreclosures of older or more expensive homes rose by only 18 percent during the same period.

The failures are Charlotte's piece

of a national problem.

Millions of lower-income families used easy-money loans to buy first homes over the past decade. Many put nothing down, paid no closing costs and received low introductory payments.

When the payments start climbing, many families can't keep up. Experts predict more than 1.5 million families who bought homes in recent years will lose those homes during the current wave.

Foreclosures are personal disasters, but it is increasingly clear that clusters of foreclosures damage en-

tire neighborhoods. Home prices drop. Remaining owners can't afford to sell their homes for less than they paid. Additional foreclosures result. Renters move in. Crime can rise.

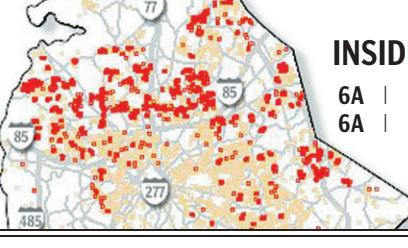
In Mecklenburg, the problems are concentrated in neighborhoods of vinyl-sided houses built in the past decade and priced below \$150,000.

The Observer identified at least 35 starter-home developments in the county where 20 percent or more of the homes have foreclosed. That is more than six times the national foreclosure rate.

SEE TREND | 6A

HOW ABOUT YOUR NEIGHBORHOOD?

Online map allows you to scan Mecklenburg developments for foreclosures.
www.charlotte.com



INSIDE TODAY

6A | Tips for new homebuyers.
6A | Map of starter-home foreclosures.

Long wait for a jet out



YALONDA M. JAMES - yjames@charlotteobserver.com

College students Nichole Rumley and Alyssa Kuchler, both 19, were trying to get back to upstate New York for classes this morning after a spring break trip to Florida but were stuck in Charlotte with hundreds of other passengers stranded by the weather.

Hundreds left stranded in Charlotte

US Airways: Show up 2 hours early today

BY STEVE HARRISON
AND CARRIE LEVINE
sharrison@charlotteobserver.com

US Airways is beginning to recover from this weekend's winter storm that snarled travel in the northeastern U.S. and caused massive backups in Charlotte, the airline's largest hub.

But travel today is expected to be crowded with passengers still trying to make their way home, many after being diverted to Charlotte/Douglas International because other airports were para-

lyzed by the ice and snow.

Airline officials are telling passengers to arrive two hours before their scheduled departure today. It hopes operations will return to normal by late Tuesday or Wednesday.

After canceling 2,100 flights Friday and Saturday, the airline canceled 160 Sunday system-wide, but none since 10 a.m.

US Airways spokesman Philip Gee estimated a few hundred people would be waking up at Charlotte/Douglas this morning after spending Sunday waiting for flights. That's significantly better than the 3,000 passengers who were stuck in Charlotte Saturday night, some from trans-Atlantic flights diverted from Philadelphia,

Gee said. Passengers said check-in lines stretched outside early Sunday evening, but by 8 p.m. the lines were shorter. An employee at the Hertz car rental counter at Charlotte/Douglas said they have been out of cars since Saturday.

The storm's impact was especially severe because it came during the busy March travel season, when people are flying on spring break.

The airline's flights are nearly sold out with 275,000 passengers booked, which means it has few open seats for stranded passengers.

"It's all the misconnections that are the problem," Gee said Sunday night. "We had over 100,000

SEE AIRPORT | 8A

GREENSBORO TROOP

Search continues for missing Boy Scout

Boy was hiking near Blue Ridge Parkway

Associated Press

Search teams on Sunday combed rugged mountain terrain for a 12-year-old Boy Scout who vanished on a group hike in mountains 90 miles north of Charlotte.

About 10 scouts and their three adult leaders of Troop 230 from Greensboro noticed Michael Auberry was missing after eating lunch together Saturday in Doughton Park, which is part of the Blue Ridge Parkway.

The park is part of a vast wilderness area along the parkway, including Stone Mountain State Park. It is filled with gullies, cliffs, waterfalls and steep terrain.

David Bauer, a ranger with the parkway, said Auberry stayed behind with an adult leader while the rest of the troop went for a hike Saturday "because apparently he wanted to sleep in." The troop members returned and ate lunch with Auberry and the leader. Soon after, between 12:30 p.m. and 1 p.m., they noticed Auberry was missing from the camp, he said.

Searchers overnight Saturday found part of Auberry's mess kit less than a mile from the camp, he said. They also found some potato chips and candy wrappers.

"At this point we're looking at every possibility," Bauer said. "The most probable thing is that he walked away."

He said searchers would streamline their search using trails and fire roads last night because of the danger involved in searching the more rugged areas in the dark. They'll continue the broader search come daylight today, he said.

SEE MISSING | 9A



Davidson College dropping loans from student aid

Bigger grants intended to replace debt for school

BY APRIL BETHEA
abethea@charlotteobserver.com

Davidson College will announce today that it will no longer offer loans in its student financial aid packages, partly to attract students who shied away from applying to

the school because of its costs.

Starting this fall, students eligible for aid will receive bigger grants to make up for the lost loans. Families can still take out personal loans if they want, but the school won't require them.

About 33 percent of Davidson students receive need-based aid, but officials said that number could grow under the no-loans policy if more lower- and middle-class students apply to the school. Students

will pay \$43,520 in 2007-08 for tuition, fees, board, books, travel and other costs.

Many schools have eliminated loans for students from poorer families. But Davidson is following the Princeton University model in promising a debt-free package for all undergraduates eligible for aid.

READ MORE ON HOW LOAN-FREE FINANCIAL AID PACKAGES HAVE GROWN IN POPULARITY. | 11A

Starter homes leading surge in Mecklenburg foreclosures

Trend from 1A

The troubled neighborhoods are concentrated west, north and east of downtown Charlotte, a crescent of deteriorating development that is putting pressure on surrounding communities.

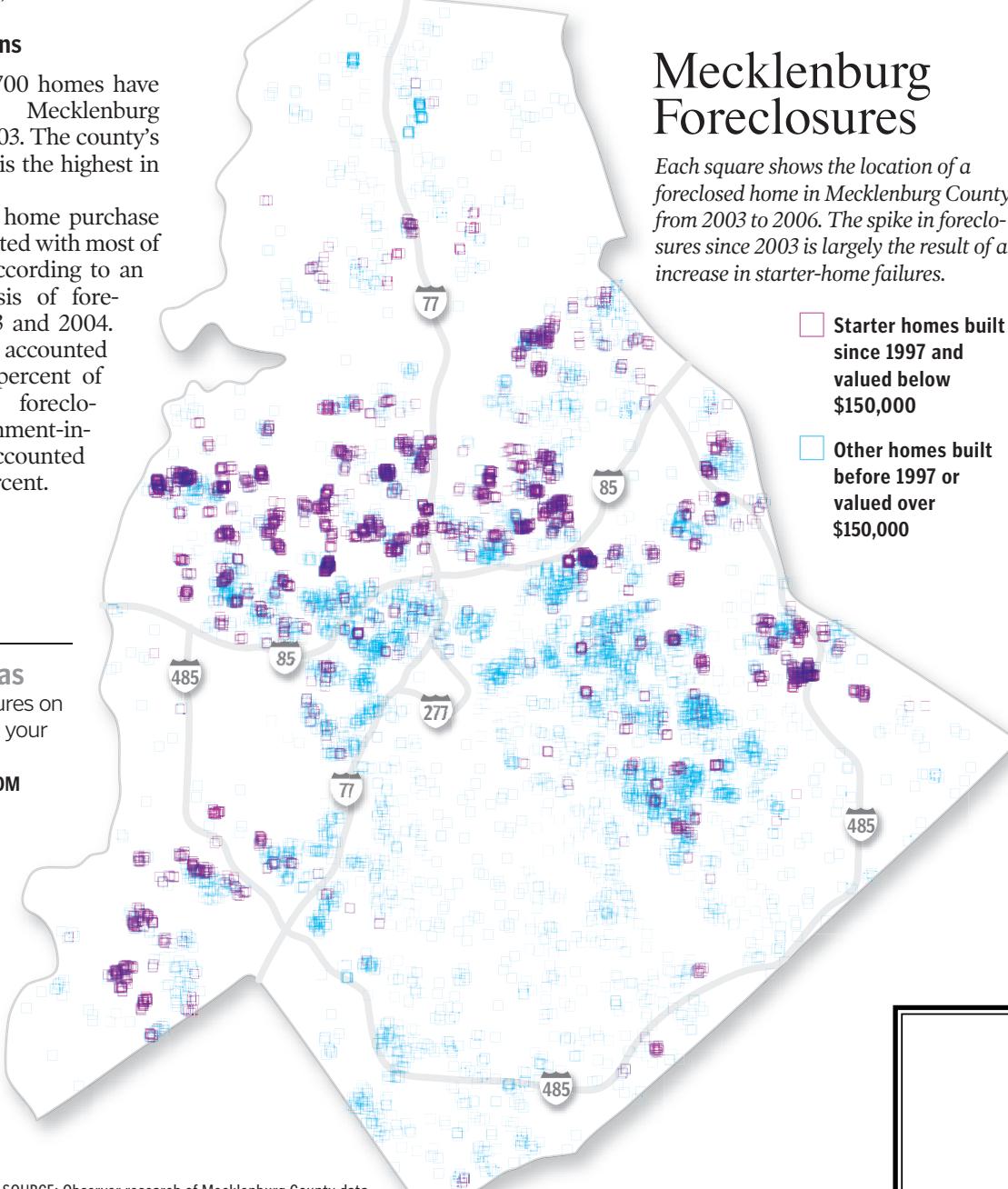
"This is an issue we're going to have to address," says Charlotte City Council member Michael Barnes, whose district in northeast Charlotte contains more than a dozen high-foreclosure neighborhoods.

"Builders put them in, sell them and move on to another subdivision," Barnes says. "But we're all going to have to deal with the long-term repercussions... including increased costs for public safety."

Two kinds of loans

More than 8,700 homes have foreclosed in Mecklenburg County since 2003. The county's foreclosure rate is the highest in the state.

Two kinds of home purchase loans are associated with most of the problems, according to an Observer analysis of foreclosures in 2003 and 2004. Subprime loans accounted for at least 24 percent of Mecklenburg foreclosures. Government-insured loans accounted for almost 30 percent.



Online Extras
Look for foreclosures on your street and in your neighborhood at WWW.CHRISTIAN.COM

SOURCE: Observer research of Mecklenburg County data
TED MELLNIK and WM PITZER - bpitzer@charlotteobserver.com

How to buy your 1st home

Thinking of buying your first home? Here's a guide, based on advice from industry experts and consumer advocates.

1. BE PREPARED

- **Get educated:** The Department of Housing and Urban Development offers information about local classes on buying a home and getting a mortgage loan: www.hud.gov/buying or 800-569-4287.
- **Clear up your finances:** Pay down debts and save money. Several months before you start looking at homes, visit your bank or credit union. Ask whether you qualify for a market-rate loan. If not, ask how you can improve your financial profile.
- **Get pre-approved:** When you're ready to find a home, ask a lender to estimate how much you can borrow. Three times annual income is a good rule. Buyers get in trouble when they fall in love with a house and then go shopping for the necessary loan.
- **Find a real estate agent:** This may be the only expert working for you during the sales process. Pick an agent who has experience in your price range. Insist that the agent represent you exclusively. Do not let the agent also represent the seller.

2. KNOW WHAT YOU'RE BUYING

- **Look for stable neighborhoods:** Buying early in a new subdivision is a big risk. Better to buy one of the last new homes in a subdivision – they're often discounted, and you can see how the neighborhood is holding up. Also consider older neighborhoods, which tend to be more stable. Ask residents about renters and foreclosures. Both are bad signs. You can view foreclosures in any Mecklenburg neighborhood at Charlotte.com and check out property histories on the Mecklenburg County Web site at <http://meckcama.co.mecklenburg.nc.us/relookup>.
- **Pay a home inspector:** Get a careful inspection before you buy. Review the report with your real estate agent. You can negotiate with the seller to make many repairs, but only before you close the deal.

3. BORROW CAREFULLY

- **Make your own down payment:** If you don't have the money, you may not be ready to buy a home. Buying a home with no money down means you have no equity, making it harder to sell or refinance if property values decline. Buying a home without any savings means you have no cushion for a loss of income or an unexpected expense.
- **Decide how large a mortgage payment you can afford:** It is easy to borrow more. Don't count on the lender to exercise restraint on your behalf. Borrow based on the maximum payment, not the introductory payment. If the pay-

ment rises after the first or second year, make sure you can still afford the loan in the third year. Don't count on money you haven't received. And don't count on refinancing to escape. Rates could rise. Property values could fall. You could be stuck.

■ **Shop around for a loan:** Mortgage brokers and loan officers don't work for you. They have no legal responsibility to find you the best possible deal. Often, they can make more money by increasing your interest rate. Visit several banks or mortgage brokers. Ask each for a "good faith estimate," a document listing

your interest rate and closing costs. Total fees should run between 3 percent and 5 percent of the loan amount. Ask about any fees you don't understand. Feel free to negotiate.

■ **Insist on getting all paperwork before closing:** Review it carefully. Signing means you agree to the terms, even ones you don't understand. Ask plenty of questions. Make sure your financial information is correct and the rate and fees are what you expected. Demand an explanation if there are any new documents at the closing. — LISA HAMMERSLY MUNN AND BINYAMIN APPELBAUM

WHAT IS A FORECLOSURE?

When a homeowner falls behind on mortgage payments, the lender can ask a court to seize the home and sell it to cover the debt.

Lenders asked courts in North Carolina to foreclose a record 45,500 homes last year, more than double the number in 2000.

Roughly half these filings end with an actual foreclosure. The remaining owners repay the loan by selling or refinancing, filing for bankruptcy, or striking a deal with the lender.

WHAT IT MEANS TO YOU

Foreclosed owners lose their home, their neighborhood, their investment. Borrowing money becomes very hard and very expensive.

Some homes sit empty. Others become rentals. Communities are destabilized. Neighboring homes lose value. Crime sometimes rises.

Local governments lose property tax revenues. They also pay to process the foreclosure and for public safety issues associated with vacant buildings. Their average cost runs into thousands of dollars, according to a 2005 study by Harvard University researchers.

CONTACT US

Lost your home? Struggling to hold on? Live in a neighborhood plagued by foreclosures? We'd like to hear your story. E-mail bappelbaum@charlotteobserver.com or call 704-358-5170.

Read the Series So Far at Charlotte.com

On Sunday, the Observer charted the problems of the foreclosure-plagued Southern Chase development in Cabarrus County.

Beazer Homes USA aggressively sold starter homes to low-income buyers in ways that made a high rate of foreclosures inevitable, an Observer investigation found. It arranged larger loans than some buyers could afford. That allowed it to include the cost of financial incentives in the price of homes.

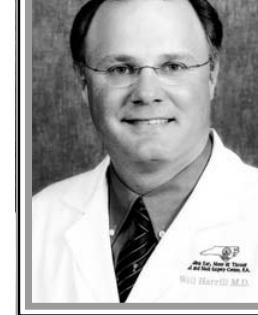
The strategy was a financial success for the Atlanta-based home builder. But the neighborhood fell apart. Seventy-seven buyers have lost homes to foreclosure in a subdivision of 406 homes. That's about one in five, more than six times the national rate.

Coming Tuesday: Beazer Homes told the Observer that Southern Chase, built from 1997 to 2004, was its only neighborhood built in the same time period with a high foreclosure rate. Read what we found when we checked.

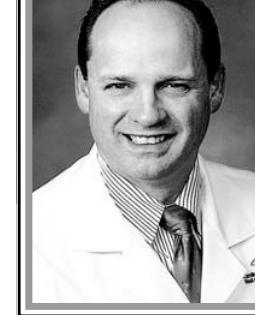
Coming Wednesday: Local, state and federal officials didn't track where foreclosures piled up and continued policies that encouraged starter-home construction.



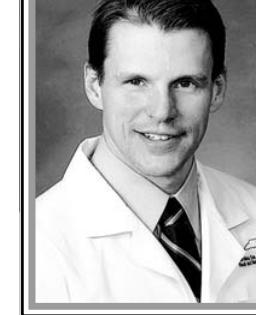
Carolina Ear, Nose & Throat Head & Neck Surgery Center



Will Harrill, MD



Roger Cole, MD



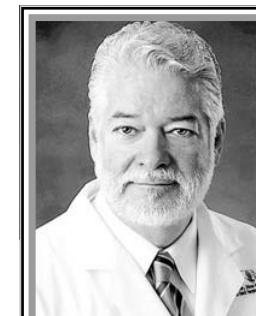
Bill Jarrett, MD



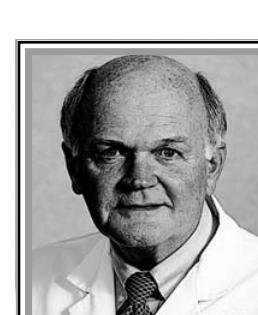
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BOFA CHAIRMAN, CEO



Ken Lewis

\$97 million payout

2006 was a very good year to be Ken Lewis

BY RICK ROTHACKER
rrothacker@charlotteobserver.com

Bank of America Corp. Chairman and Chief Executive Ken Lewis saw his total compensation skyrocket to \$97 million in 2006, spurred by a previously announced plan to cash in stock options.

Lewis made \$19.9 million from his salary, stock award, non-stock bonus and perks, a slight increase from 2005. But he also reaped \$77 million from exercising accumulated stock options, according to the bank's annual proxy statement filed Monday.

The big payday comes as investors and lawmakers have increasing concerns about executive pay packages that are roaring past the wages of the average worker. For Lewis, who took over as CEO in 2001, it was his biggest pay check since taking home \$38 million in 2003, which included \$20.3 million in option gains.

SEE BOFA | 12A

Big Pay Days

Other mega packages for Carolinas CEOs:

JOHN BLYSTONE, SPX
2002: \$55.9 million
Included \$48.9 million restricted stock grant. He lost the grant when he left the company early in 2004.

HUGH MCCOLL JR., Bank of America
1999: \$48.8 million
Included \$44.7 million stock grant.

CATAWBA INDIAN LEADER TO STEP DOWN MARCH 31

Chief leaves complex legacy

BY DAN HUNTLEY
dhuntley@charlotteobserver.com

ROCK HILL — Chief Gilbert Blue, the Catawba Indian leader credited with resolving a 150-year-old dispute that led to a \$50 million land claim settlement, is ending a stormy 34-year reign over South Carolina's only federally recognized tribe.

Blue, 73, said Monday that his resignation is effective

March 31; an election is set for July 21 to choose a replacement. Blue ruled the remnants of a former 144,000-acre reservation created by the King of England before there was a United States.

Although he had been considering retirement for months, the breaking point came Saturday during a contentious tribal meeting with outbursts by a group of dis-

sidents. York County Sheriff's deputies were called to maintain order, he said.

"I just decided that enough was enough, and I was tired of being harassed by some mean-spirited tribal members," said Blue.

SEE BLUE | 7A

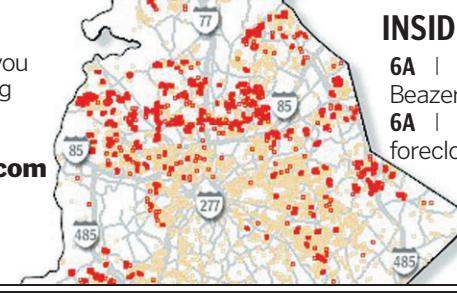
VIDEO POKER SETBACK | 7A
The S.C. Supreme Court rules tribe not exempt.



Chief Gilbert Blue of the Catawba Tribe had been considering retirement for months, but the breaking point came Saturday during a tribal meeting with outbursts by dissidents.

INSIDE TODAY

6A | Federal review of Beazer showed problems.
6A | Map of Beazer foreclosure clusters.



INSIDE

Local | 1B

Search crews seek missing Scout

Rescuers planned to search through the night for the 12-year-old, missing in a mountainous, heavily wooded area of Western North Carolina since Saturday.

Cloudy, warmer
Low: 45. High: 71.
Mostly cloudy this afternoon with possible showers tonight. Early drizzle Wednesday. **Forecast, 6D.**

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Nation | 9A

50 years later, this 'Cat' is still cool

"The Cat in the Hat" revolutionized the way children learned to read. Dr. Seuss's classic appeared to be a simple rhyming book, but it carried a message.

Also in the News

► White House ready to fire AG Gonzales? | 8A

► Postal rates rise May 14; 'Forever' OK'd | 8A

Coming Wednesday

Making your own mayo can be easy

It doesn't have to come in a jar.

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[Sold a nightmare ■ PART THREE OF FOUR]

1 builder, hundreds of foreclosures



GARY O'BRIEN - gobrien@charlotteobserver.com

"The foreclosures have hurt my property value," says Dan Smart, who bought a home in the Stewarts Crossing neighborhood in 2000. That development's foreclosure rate is 34 percent, the highest of any built by Beazer Homes USA in Mecklenburg County. Smart said rotting wood began to appear just a couple of years after he moved into his house.

10 Beazer developments in Mecklenburg riddled by foreclosures

BY BINYAMIN APPELBAUM,
LISA HAMMERSLY MUNN
AND TED MELLNIK
Staff Writers

In the past decade, Beazer Homes USA built more houses in Mecklenburg County than any other builder.

Beazer built about 2,900 homes in Mecklenburg between 1997 and 2006. At least 388 have foreclosed. That is a rate above 13 percent, the highest among the county's 10 most prolific builders during that period, an Observer investigation found.

Nationwide, less than 3 percent of buyers lose homes to foreclosure.

The Beazer foreclosures are concentrated in 10 developments, each of which has a foreclosure rate of 20 percent or higher. Together they contain about 1,150 homes and at least 280 foreclosures.

The neighborhoods sit in a crescent stretching from southwest Mecklenburg through north Charlotte to the county's eastern edge. The same area contains most of Mecklenburg's foreclosures.

All were built in a similar style: Small lots holding small vinyl-sided houses set on concrete slabs. They were marketed

mostly to first-time home buyers. Prices started below \$100,000 and usually topped out just above \$150,000.

Two other similarities have produced the high foreclosure rates: Some buyers received larger loans than they could afford, and home prices generally stayed flat or declined. People who couldn't pay their loans and couldn't sell their homes fell into foreclosure.

Foreclosures are personal disasters, but it is increasingly clear that clusters of foreclosures damage entire neighborhoods. Home prices drop. Additional

SEE CLUSTERS | 6A

HOW ABOUT YOUR NEIGHBORHOOD?

Online map allows you to scan Mecklenburg developments for foreclosures.
www.charlotte.com

82ND AIRBORNE

Ready brigade not so ready, spread thin

Troops long a symbol of U.S. ability to act fast

BY DAVID S. CLOUD

New York Times

FORT POLK, La. — For decades, the Army has kept a brigade of the 82nd Airborne Division on round-the-clock alert, poised to respond to a crisis anywhere in 18 to 72 hours.

Today, the so-called ready brigade is no longer so ready. Its soldiers are not fully trained, much of its equipment is elsewhere, and for the past two weeks the unit has been far from the cargo aircraft it would need in an emergency.

Instead of waiting on standby, the 1st Brigade of the Fort Bragg-based 82nd Airborne is deep in the swampy backwoods of this vast Army training installation,

SEE MILITARY | 4A



GARY O'BRIEN - gobrien@charlotteobserver.com

People move in and out often, Stewarts Crossing homeowners told the Observer. "We've had a lot of for-sale signs," says Amina Johnson, who bought her house in 2000. One in 3 houses have foreclosed in the neighborhood in northeast Mecklenburg County.

Foreclosures clustered in 10 Beazer neighborhoods

Clusters from 1A

foreclosures result. Renters move in. Crime can rise.

"It was a disaster," says Veronica Wilkes, who bought a house from Beazer in 2001 in the northwest Charlotte subdivision of Brookmere.

Beazer built 31 homes on her street. Thirteen have foreclosed.

"There was trash all over the streets, kids walking through your yard," says Wilkes, who now rents out her home because she can't sell it. "You could tell the homeowners - their yards were nice and pretty, and the other yards were terrible."

A story in Sunday's Observer charted the impact of foreclosures on Southern Chase, a Cabarrus County neighborhood where Beazer built 406 homes. Seventy-seven of the homes have foreclosed, a rate of 19 percent.

In a written statement, Atlanta-based Beazer originally said the foreclosure rate in Southern Chase was an anomaly.

When the Observer presented its findings about the 10 Mecklenburg developments with higher foreclosure rates, Beazer referred to its earlier statement. The company said its developments were marketed to first-time buyers, who tend to foreclose more often.

Beazer also said that it "is committed to providing quality homes of superior value and providing each and every homeowner with an enjoyable customer experience."

The company's CEO, Ian McCarthy, declined to speak with the Observer.

Government-insured loans

Beazer's troubled developments were backed by a silent partner: the federal government.

More than 70 percent of the buyers in the 10 developments used loans insured by the Federal Housing Administration. The FHA encourages mortgage lending to lower-income families by promising to pay the lender if the borrower does not.

In one of the developments, Back Creek Hollow in northeast Mecklenburg, 64 of 70 buyers used FHA-insured loans. Seventeen of those homes have since foreclosed, a rate of more than one in four.

The largest source of FHA loans in the Beazer developments was Beazer itself.

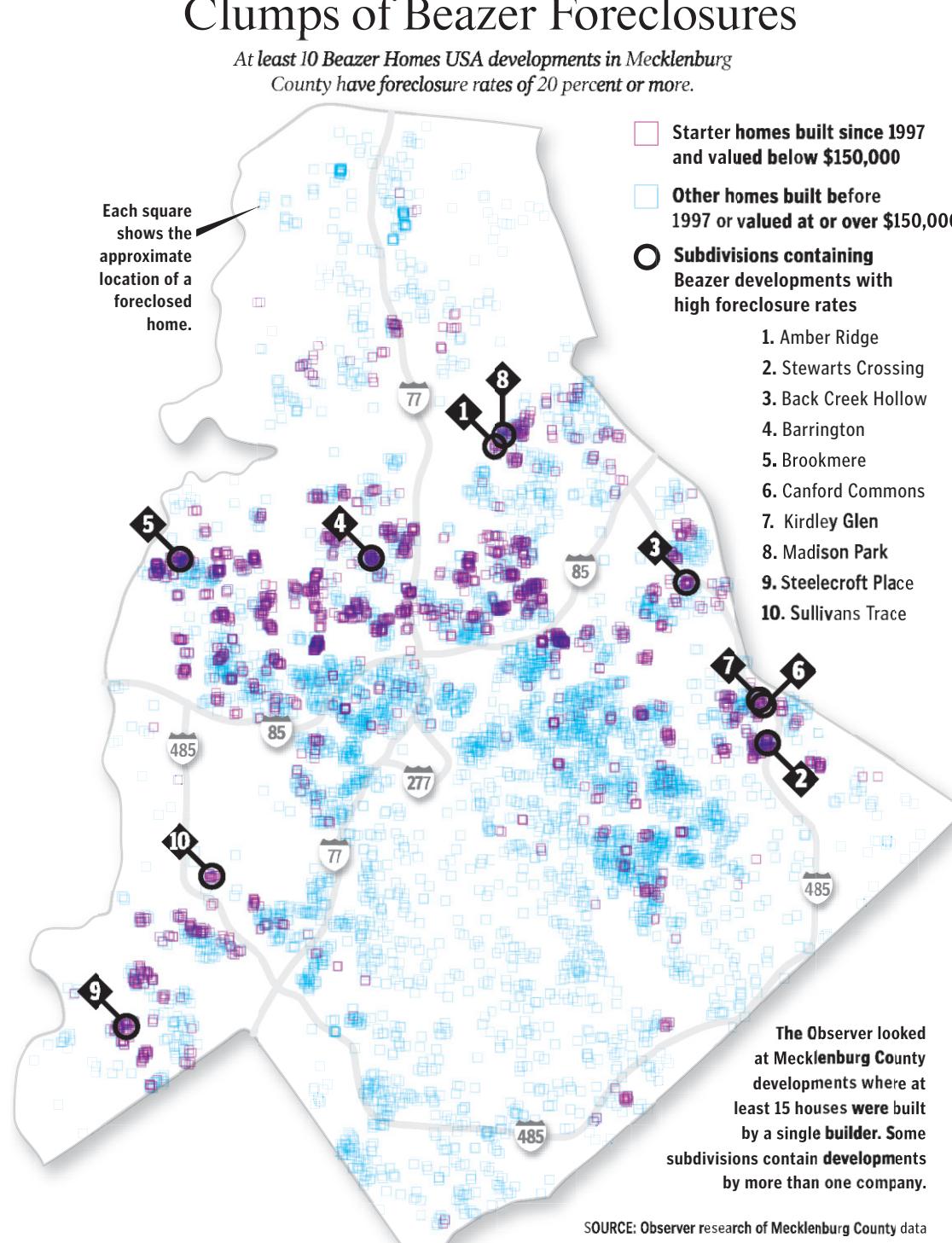
A subsidiary called Beazer Mortgage acted as a broker, matching buyers with lenders for a fee of several thousand dollars on each loan.

The FHA loans that Beazer Mortgage arranged often were aggressive. The company provided down payments for most of its borrowers, leaving them with little stake in the homes. It also arranged loans with

monthly payments that started low but rose sharply after the first and second years, a feature known as a buydown.

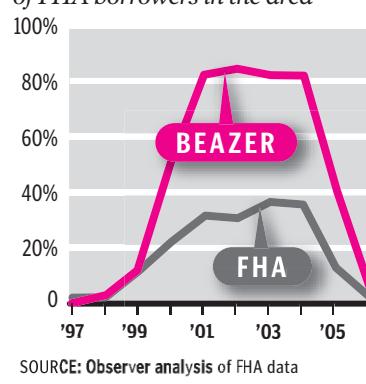
Both down-payment gifts and buydowns were associated with a higher risk of foreclosure, the Observer found.

Beazer and Eastwood Homes built on the same streets in Steelecroft Place, a subdivision

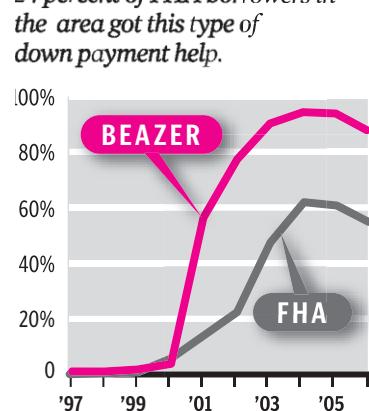


BUYDOWNS: From 1997 through 2006, Beazer Homes USA helped with mortgage payments for 64 percent of its FHA borrowers in the Charlotte area.

That compares with 20 percent of FHA borrowers in the area



DOWN PAYMENTS: From 1997 through 2006, Beazer Homes USA provided down payments for 69 percent of its FHA borrowers in the Charlotte area. About 24 percent of FHA borrowers in the area got this type of down payment help.



in southwest Charlotte. Eastwood built slightly more than half the subdivision's 360 homes; Beazer built the rest. The houses are intermixed, sometimes on alternating lots.

Twenty percent of the Beazer homes have foreclosed, compared with 8 percent of the Eastwood homes.

The prices were similar. The

Beazer homes have an average tax value of \$138,000; the Eastwood homes, an average of \$147,000.

The financing was different. Two-thirds of Beazer's buyers used FHA loans with low introductory payments that increased after the first and second years. About 5 percent of Eastwood's buyers used that kind of FHA buydown loan.

In a written statement, Beazer said that it followed all laws and regulations and that offering financial assistance to first-time buyers was a common industry practice.

The company also emphasized that it acts solely as a mortgage broker and that loans are ultimately approved or rejected by the lender. The company said buyers are informed of loan terms and sign documents at the closing table to indicate their understanding and acceptance.

Low cost, big problems

The county's foreclosure problems are concentrated in new neighborhoods with the lowest prices.

Derhyll Pruitt, a local real estate agent, said he tells first-time buyers, "If you can possibly stretch to pay \$180,000, that will eliminate

What Is a Foreclosure?

When a homeowner falls behind on mortgage payments, the lender can ask a court to seize the home and sell it to cover the debt.

Lenders asked courts in North Carolina to foreclose a record 45,500 homes last year, more than double the number in 2000.

Roughly half these filings end with an actual foreclosure. The remaining owners repay the loan by selling or refinancing, filing for bankruptcy, or striking a deal with the lender.

What It Means to You

Foreclosed owners lose their home, their neighborhood, their investment. Borrowing money becomes very hard and very expensive.

Some homes sit empty. Others become rentals. Communities are destabilized. Neighboring homes lose value. Crime sometimes rises.

Local governments lose property tax revenues. They also pay to process the foreclosure and for public safety issues associated with vacant buildings. Their average cost runs into thousands of dollars, according to a 2005 study by Harvard University researchers.

Contact Us

Lost your home? Struggling to hold on? Live in a neighborhood plagued by foreclosures? We'd like to hear your story. E-mail bappelbaum@charlotteobserver.com or call 704-358-5170.

the problems."

Beazer itself built some developments in slightly higher price ranges. Those homes are relatively untouched by foreclosures.

In Beazer's 13 developments with average tax values above \$150,000, less than 5 percent of homes have foreclosed.

In the 20 developments with average tax values below \$150,000, almost 18 percent of homes have foreclosed.

The Beazer development with the highest foreclosure rate was in the Avensong subdivision, in eastern Mecklenburg County.

Beazer built 155 homes in a section called Stewarts Crossing between 1999 and 2001. Fifty-two of those homes have foreclosed.

Avensong also contains a section of about 160 houses built by Colony Homes and sold at higher prices. Twelve of those homes have foreclosed.

Karen and Loren Pittman have watched with alarm as one-third of their neighbors fell into foreclosure.

The Pittmans moved to Stewarts Crossing in May 2000. They paid \$119,500 for a house with three bedrooms and 1,295 square feet.

Read the series on the Web at Charlotte.com

On Sunday, the Observer charted the problems of the foreclosure-plagued Southern Chase development in Cabarrus County.

Beazer Homes USA aggressively sold starter homes to low-income buyers in ways that made a high rate of foreclosures inevitable, an Observer investigation found. It arranged larger loans than some buyers could afford. That allowed it to include the cost of financial incentives in the price of homes.

The strategy was a financial success for the Atlanta-based home builder. But the neighborhood fell apart. Seventy-seven buyers have lost homes to foreclosure in a subdivision of 406 homes. That's about one in five, more than six times the national rate.

On Monday, the paper told how the number of foreclosures in Mecklenburg County has spiked to record levels since 2003, almost entirely because of foreclosures in starter-home subdivisions.

The Observer identified at least 35 starter-home developments in the county where 20 percent or more of the homes have foreclosed.

Coming Wednesday

Local, state and federal officials didn't track where foreclosures piled up and continued policies that encouraged starter-home construction.

Federal review

The Observer first reported in January 2006 on the high failure rate for Charlotte-area loans arranged by Beazer and insured by the Federal Housing Administration.

In response, the federal government reviewed a sample of loans arranged by Beazer's local office. This was completed in February 2006, but the Department of Housing and Urban Development, which administers the FHA program, refused to release its findings until last December.

The review found that Beazer in at least two cases had failed to document that borrowers could afford their mortgage loans, a violation of FHA rules. One of those borrowers has since foreclosed, and the other filed for bankruptcy to avoid foreclosure, the Observer found.

The review also found that Beazer charged at least five borrowers in the Charlotte area several times the maximum loan fees allowed on an FHA loan.

The review did not address how HUD allowed this to happen. And the affected borrowers were not notified.

HUD did request a response from Beazer. But two months after the report was completed, in April 2006, Beazer's Charlotte office surrendered its license to make FHA loans. HUD said the surrender was voluntary. Beazer declined to comment.

HUD says it will take no further action against Beazer. And the department said Beazer still can make FHA loans to Charlotte-area borrowers through a different lending office.

"We still want people to be served," HUD spokesman Lemar Wooley wrote in an e-mail to the Observer.

— BINYAMIN APPELBAUM

They wanted a low-priced home so Karen could quit work and raise their children.

The next year, the county cut the tax value of the house by 11 percent to \$106,100.

The couple have watched renters move in. Karen worries about her safety and doesn't walk on some streets. Tax values are rising now, but the Pittmans aren't sure that will carry over to sales prices.

"I would never buy into a neighborhood like this one again," she said. "We had no idea anything like this could happen."

Binjamin Appelbaum: 704-358-5170, bappelbaum@charlotteobserver.com
Lisa Hammersly Munn: 704-358-5886, lmunn@charlotteobserver.com



Butch Davis
undergoes
chemo

**N
SPORTS**

Song choice of S.C. 'Idol' is
questioned but
fans remain loyal

IN THE
'A' LIST
ON PAGE 2A



The Charlotte Observer

WEDNESDAY, MARCH 21, 2007

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C D E F • | Price varies by county | 50¢

Homesick Boy Scout rescued after 3 nights lost in mountains



Amy Puryear (left), Susan Pabon (center) and Melani Sawyer embrace after learning that Michael Auberry, a 12-year-old Boy Scout who disappeared Saturday in McGrady, was found. They attend church with the Auberry family.

Child found hungry,
dehydrated a half-mile
from troop's campsite



IMAGE FROM VIDEO VIA AP
Boy Scout Michael Auberry is transferred from an ambulance to Wilkes Regional Medical Center in North Wilkesboro.



Kent Auberry Gandalf

Michael was dehydrated and hungry for store-bought Grandma's cookies and chicken fingers, but he was in good spirits as he recovered Tuesday evening at Wilkes Regional Medical Center in North Wilkesboro, his father said.

Temperatures dipped into the 20s at night. Michael was wearing jeans, a base layer, a fleece, a winter coat, gloves and a baseball cap.

He drank water from a

SEE FOUND | 4A

BY MARCIE YOUNG
myoung@charlotteobserver.com
McGRADY — Michael Auberry just wanted to see his family and friends Saturday afternoon when he wandered away from his Boy Scout troop's campsite in Western North Carolina's rugged mountains.

"He was homesick," said Kent Auberry, Michael's father. "He started walking and thought he'd hitchhike home."

Michael, a 12-year-old Boy Scout from Greensboro, spent

three nights lost in the rocky and steep mountains in Doughton State Park before being found Tuesday morning. Rescuers, including a search

dog named Gandalf, found Michael shortly before 11 a.m. walking along a rushing creek about a half-mile from where he disappeared.

FIRED U.S. ATTORNEYS

Bush, Democrats clash over aides' questioning

President says he'll
fight subpoena efforts

BY LAURIE KELLMAN
Associated Press

WASHINGTON — President Bush warned Democrats on Tuesday to accept his offer to have top aides speak about the firings of federal prosecutors privately and not under oath, or

risk a constitutional showdown.

The Democrats' response: They said they would start authorizing subpoenas as soon as today.

Bush, in a late-afternoon statement at the White House, said he would fight any subpoena effort in court.

"We will not go along with a partisan fishing expedition aimed at honorable public servants," he said.

SEE AIDS | 7A



CHARLES DHARAPAK - ASSOCIATED PRESS PHOTO
President Bush said he would fight any subpoena effort in court.

MORE COVERAGE | 7A

Documents show Justice Department divided over controversy.

INSIDE

Business | 1D

Many call; few pets ill



Charlotte-area vets are fielding calls about a recall of more than 50 brands of pet food. But they say very few pets are showing symptoms. A dog and 13 cats have died nationwide, the FDA says.

Local & State | 1B

False Social Security numbers used for IDs

North Carolina has issued nearly 27,000 driver's licenses based on invalid Social Security numbers, a state auditor's report said Tuesday.



Also in the News

- Make your own mayo | 1E
- War protests proliferating in Carolinas | 1B
- Duke, UNC, N.C. State women keep rolling | 1C

Coming Thursday

So many palms to plant

It's warm enough in Charlotte to grow any of 50 palms in your yard. Expert John Denti gives his recommendations.

Ask Amy.....	7E	Horoscope.....	7E
Business.....	1D	Movies.....	5E
Classified.....	6F	Obituaries.....	6B
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Rainy, cooler
Low: 49. High: 55.
Morning rain and
afternoon showers, both light.
Showers could linger into
evening. Partly sunny, warmer
Thursday. Forecast, 8B.

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Vol. 138, No. 80

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[Sold a nightmare] PART FOUR OF FOUR

Failed mortgages fly under the radar

From feds on down, no one keeps close track of foreclosures, limiting oversight

BY BINYAMIN APPELBAUM,
LISA HAMMERSLY MUNN
AND TED MELLNIK
Staff Writers

The city of Charlotte does not count foreclosures. Neither does Mecklenburg County. Nor the state of North Carolina. Nor the federal government.

As a result, authorities did not notice an emerging pattern: Foreclosures are concentrating in starter home neighborhoods.

An Observer analysis of county records found 35 Mecklenburg developments of low-priced homes built in the past decade with foreclosure rates of 20 percent or higher. Dozens of residents say the concentrations have damaged their communities. Prices fell. Renters moved in. Crime sometimes rose.

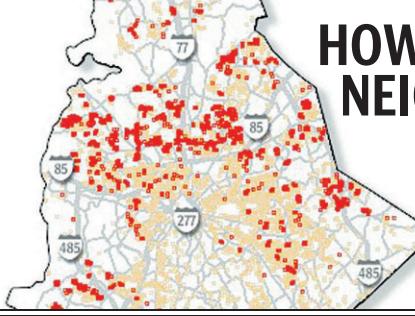
But as the foreclosures piled up, authorities were unaware.

"We wouldn't know it on a

SEE MORTGAGES | 10A

INSIDE TODAY

10A | Who to call if you're facing
foreclosure.



HOW ABOUT YOUR NEIGHBORHOOD?

Online map allows you
to scan Mecklenburg
developments for
foreclosures.
www.charlotte.com

CHARLOTTE-MECKLENBURG SCHOOLS

Deadlock breaks on school construction

Compromise by CMS board may pave way for bond referendum



Griffin



Gauvreau

BY PETER SMOLOWITZ
psmolowitz@charlotteobserver.com

The Charlotte-Mecklenburg school board reached a compromise Tuesday on school construction that could help clear the way for a \$467.8 million bond package in November.

The agreement, which would add about \$60 million to the package, ends a deadlock that had lasted more than a month.

Under the plan offered by Superintendent Peter Gorman, 15 projects from the failed 2005 bond campaign would be back on the ballot this year. Much of that construction would be at

schools closer to the center city, partly to ease criticism that Gorman's initial spending proposal focused too much on suburbs.

Six of the nine school board members endorsed the proposal, with vice chair Molly Griffin calling it "the beginning of a very good compromise."

Board member Larry Gauvreau, however, said the money was "misprioritized," saying Gorman's strategy shouldn't be supported just for the sake of avoiding another bond defeat.

The projects from the last

SEE CMS | 4A





Beazer Homes USA built 155 homes in the Stewarts Crossing development in Mecklenburg County between 1999 and 2001. Fifty-two of those homes have foreclosed. Remaining residents worried as property values declined and renters moved in.

Details of foreclosures flying under the radar

Mortgages from 1A

The Department of Housing and Urban Development, which administers the FHA program, was unable at first to say how many loans it insured on streets in Southern Chase. It was unable to say which ones had foreclosed. And it didn't know all the failed loans were in one neighborhood.

The lack of information about the location of foreclosures makes it harder to regulate the lending industry. Buyers share responsibility for the loans they accept, and foreclosures sometimes result from the loss of a job or an unexpected expense. But regulators say that concentrations of foreclosures often indicate misconduct by someone else, such as a broker who arranged a number of loans or an appraiser who valued the homes.

None of the government agencies contacted by the Observer said it plans to start tracking foreclosures.

Federal authorities

About 8,700 homes have foreclosed in Mecklenburg County over the past four years. The county's foreclosure rate is the highest in the state.

An Observer study found almost 30 percent of the foreclosures in 2003 and 2004 were associated with loans insured by the federal government.

The FHA encourages lending to lower-income families by promising to repay the lender if the borrower does not. The money comes from premiums paid by borrowers, not from taxpayers.

In the mid-1990s, the FHA started insuring riskier loans. Borrowers were no longer required to make a down payment. Lenders could arrange larger loans simply by projecting that a borrower's income was likely to increase.

The share of Americans who own homes rose to almost 69 percent last year from 65 percent in 1996. The FHA was responsible for a share of the increase. So were subprime lenders, which make loans with high interest rates to the same people traditionally served by the FHA.

But now the number of foreclosures also is pushing into record territory, driven by defaults on FHA and subprime loans, according to estimates made by the lending industry.

"The mortgage industry has said they have increased home ownership," HUD's inspector general, Kenneth Donohue, told a U.S. House committee last week. "However, at what cost to the American people?"

The FHA has tightened some of its standards in response to the problems.

In 2004, it stopped allowing lenders to increase the size of a loan by projecting a borrower's income would increase.

Beazer arranged such loans for 147 buyers in Southern Chase. More than a quarter ended in foreclosure, often because the borrower's income did not increase.

But the FHA continues to allow buyers to purchase homes

How to Get Help

If you're a homeowner behind on mortgage payments or facing foreclosure, here are some places to call for information or help:

- Contact the company that services your loan as soon as possible. They may be willing to adjust your payments.
- You can also contact a counseling agency, which can work with the lender on your behalf. In Charlotte, United Family Services offers counseling at 704-332-9034. Outside Charlotte, you can find a local agency by calling the U.S. Department of Housing and Urban Development at 800-569-4287 or online at www.hud.gov/offices/hsg/stfh/hcc/hccprof14.cfm.
- You can also call a national nonprofit, the Home Ownership Preservation Foundation, at 888-995-4673.

If you believe your home purchase may involve illegal or unethical work by real estate professionals, contact:

N.C. Appraisal Board: 919-870-4854 or www.ncappraisalboard.org.

N.C. Banking Commission (which licenses loan officers and mortgage brokers): 919-733-3016 or www.nccb.com.

N.C. Real Estate Commission: 919-875-3700 or www.ncrec.state.nc.us.

The N.C. Attorney General Consumer Protection Division: 877-566-7226 or www.ncdoj.com/consumerprotection/cp_about.jsp.

The FBI: 704-377-9200 in North Carolina.

Proposed Legislation

Efforts to curb foreclosures:

N.C. House Bill 817, residential mortgage fraud.

Designed to make it easier for authorities to prosecute real estate professionals for mortgage fraud in state courts. Makes mortgage fraud a felony.

N.C. House Bill 313, making public the name of the loan originator.

Requires deeds of trust, which are public records that set out loan terms for home sales, to carry the name of the mortgage broker or loan originator. N.C. Commissioner of Banks Joseph Smith is promoting the bill to help his office regulate the state's mortgage loan originators.

with no money down. It requires a 3 percent down payment, but it allows sellers to provide the money to the buyer indirectly. Federal studies show the price of the home is often increased to cover the expense. That leaves buyers with no equity.

Government reports have criticized the practice because borrowers foreclose more often if they don't own a stake in the home. In Southern Chase, Beazer provided down payments for 135 borrowers. More than a quarter have foreclosed.

State authorities

The newspaper found that Beazer, which arranged loans for most buyers in Southern Chase, in some cases arranged larger loans than buyers could afford. Facts were misstated on an appraisal obtained by the Observer.

North Carolina's regulatory boards license mortgage brokers and lenders, appraisers and other real estate professionals. They can revoke licenses and refer cases to law enforcement.

But regulators lack basic information about who is involved in the lending process. The name of the lender appears in public records, but not the name of the appraiser, or the broker that arranged a loan.

The N.C. Appraisal Board usually investigates only after receiving a complaint. That means it often relies on homeowners to figure out that the price of their home may have been inflated — and which state agency to call.

The N.C. Commissioner of Banks is prioritizing examinations of mortgage brokers whose loans result in a large number of foreclosures, deputy commissioner Pearce said. But Pearce said the agency continues to rely mostly on complaints from the public to know which brokers deserve scrutiny.

After the Observer first reported last year on Mecklenburg County's spiking foreclosure rate, state legislators filed a bill to include appraisers and mortgage brokers in the public record. It died in committee.

Some legislators haven't believed foreclosures are a problem, says Rep. Becky Carney, D-Mecklenburg, a vice chair of the House committee created to study foreclosures after the Observer's stories last year.

There's more attention on the issue now, Carney says, because of the problems in the subprime lending industry.

Some legislators, she says, "are as surprised now as some of us were last year."

Local authorities

New subdivisions require approval from city and county government, as do the land-use plans that determine where subdivisions can be built.

About 24,000 starter homes with tax values below \$150,000 were built in Mecklenburg County between 1997 and 2005, according to property records. That's about 40 percent of all new homes in the county during

that period.

The starter-home developments were concentrated in a crescent that stretches from southwest of downtown, through northern Charlotte, to the eastern county limits.

Because the starter-home developments sit close together, that is now the crescent in which Mecklenburg's foreclosures increasingly are concentrated, too.

City officials want to provide affordable housing to lower-income residents, says Richard Woodcock, Charlotte's deputy director of neighborhood development.

"But we don't want the foreclosures," he says.

The starter-home developments share a style: Small lots holding small vinyl-sided houses set on concrete slabs. Some have no sidewalks. Common spaces are uncommon.

City and county boards can require builders to make their subdivisions more desirable, by providing sidewalks, open space and varied home facades.

The city of Concord upgraded its subdivision standards in 2000, partially in response to problems in Southern Chase, said City Manager Brian Hiatt. Charlotte also has adopted rules requiring sidewalks and other amenities.

Finally, local governments can provide help to homeowners facing foreclosure.

Chicago cut foreclosures by 10 percent after it started arranging counseling for owners who called the city.

The Charlotte City Council rejected a request last year for increased funding from the non-profit that provides foreclosure prevention counseling to city residents. The issue is expected to come up again this year.

Special Report Staff

REPORTERS

Binyamin Appelbaum
704-358-5170
bappelbaum@charlotteobserver.com

Lisa Hammersly Munn
704-358-5886
lmunn@charlotteobserver.com

DATABASE EDITOR

Ted Mellnik
704-358-5028
tmellnik@charlotteobserver.com

COPY EDITORS

Reid Creager, Rich Mathieson, Steve Masters

DESIGNERS

Eric Edwards, Robin Johnston

MULTIMEDIA PRODUCER

Phillip Hoffman

NEWS GRAPHICS EDITOR

Wm Pitzer

PHOTOGRAPHERS

Diedra Laird, Yalonda M. James, Christopher A. Record

RESEARCH

Sara Klemmer, Maria Wygand

EDITORS

Bert Fox (photography); Marion Paynter (research); Dave Enna (Charlotte.com Web site director)

PROJECT EDITORS

Gary Schwab, Patrick Scott

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Read the Series on the Web at Charlotte.com

SUNDAY

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MONDAY

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TUESDAY

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IN MONEYWISE



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INSIDE

The Charlotte Observer

SUNDAY, JULY 8, 2007

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www.charlotte.com

C D E F

• Price varies by county | \$1.50

'No closing costs' add up fast

When Beazer offers incentives, homebuyers think they'll save money. Some don't.

BY BINYAMIN APPELBAUM

bappelbaum@charlotteobserver.com

Beazer Homes USA told Dina Franklin it would pay the closing costs when she purchased a new home in 2003 in northeast Mecklenburg County.

She just had to use a loan arranged by Beazer Mortgage.

Franklin was a single mother

with a part-time job and scant savings. She couldn't afford a home on any other terms. She leapt at the deal.

She says Beazer didn't mention that it had charged her an interest rate about 1 percentage point higher than the best rate she could have received. Her loan documents didn't spell it

out. She says she didn't learn until this spring that she has been paying about \$81 a month in extra interest.

Beazer spent \$3,050 on closing costs to convince Franklin to take the loan. It earned \$8,920 for signing her at the higher interest rate.

Franklin says she didn't shop

around because she trusted the company and believed it was giving her a good deal. Now she is struggling to keep the home.

"They took advantage of a first-time homebuyer," Franklin, 40, said this spring.

Beazer, like most large home-builders, has a side business in arranging loans for its buyers.

The company presents the mortgage arm as a convenience and a way to save money.

But in Beazer developments across the Charlotte area, the Observer found the company took advantage of financially vulnerable, inexperienced buyers through its role as both home

SEE BEAZER | 4A

BEWARE INCENTIVES

Builders often promise incentives to buyers who agree to use their mortgage arms. But buyers beware: The incentives may not be free. Inside, a closer look at two of the ways

Beazer Homes USA recouped money from customers such as Leasa Wright without their knowledge.

PAGE 4A.



18 MONTHS IN OFFICE

Bowles brings new tone, urgency

UNC system leader's business approach helps win over former foes

BY JIM MORRILL

jmorrill@charlotteobserver.com

As a top adviser to North Carolina's last two Republican U.S. Senate candidates, Peter Hans twice worked hard to defeat Democrat Erskine Bowles.

Now that Bowles runs the University of North Carolina system, he has few bigger fans.

"I'd absolutely give him an 'A,'" says Hans, a member of the system's Board of Governors.

"He's helping create a lean, mean university system."

Such praise comes after Bowles' first 18 months as president of the University of North Carolina system, where he oversees 16 campuses and a \$6 billion annual budget.

He has an ambitious agenda, driven by a sense of urgency and a belief that the university is the strongest engine to pull the state through the choppy waters of a new global economy.

A businessman and former White House chief of staff, Bowles has streamlined the bureaucracy and demanded accountability. He has prodded schools to cut costs and respond to changing needs.

Not all his decisions are popular.

SEE UNC | 9A

BETS ARE OFF
3B | Bowles nixes lottery ads at collegiate games

INSIDE

World | 17A

Suicide bomber hits Iraqi market

Bombing kills more than 140; eight U.S. troops killed separately.

Sports | 1C

McMurray wins close one at Daytona

Jamie McMurray comes from behind to nip Kyle Busch at Pepsi 400.

Scattered storms
Low: 71. High: 89.
Muggy with a chance of thunderstorms through Monday. **Forecast, 6B.**

GROWTH PUSHING COSTS UP

Property tax gap is shrinking



LAYNE BAILEY - lbaily@charlotteobserver.com

Karl and Catherine Long moved last week with their three sons - Sims, 16, Turner, 13, and Cooper, 9 - from Matthews to Union County. The couple liked the tennis courts and pools in the area and the schools. And Union's lower taxes didn't hurt, they said.

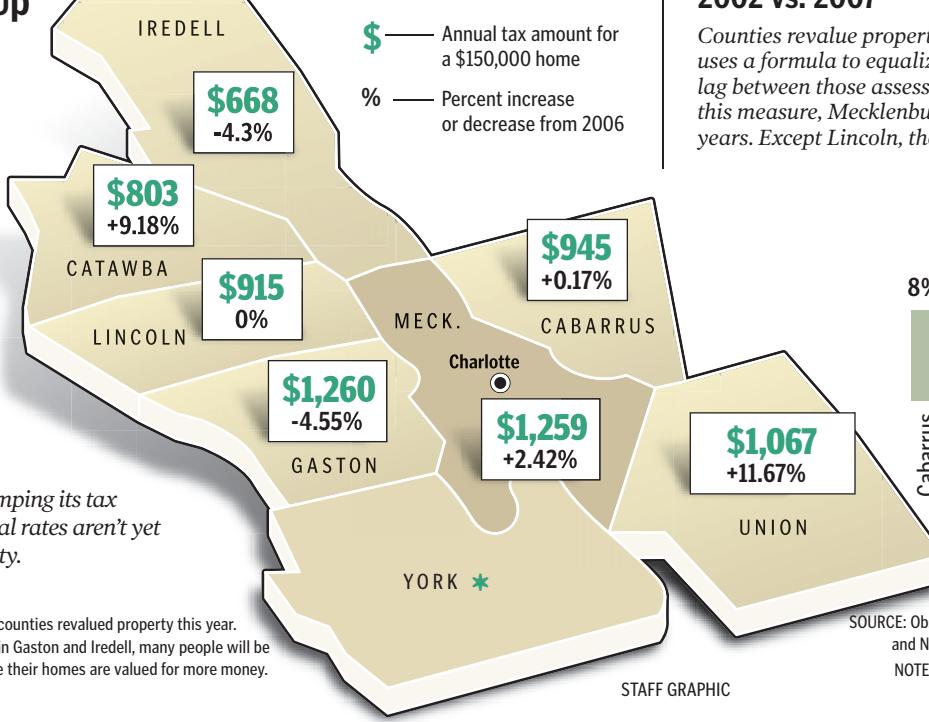
County Taxes Up

Property tax rates changed July 1. Here's what homeowners would pay this year for their county property taxes on a \$150,000 home, with how much the bills went up since last year. The amount doesn't include any taxes for municipalities or other services - like policing, sewer or fire districts - so total bills would be higher.

*South Carolina is revamping its tax code this year and official rates aren't yet available for York County.

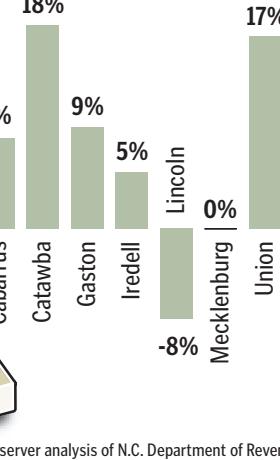
See story Page 6A

Note: Gaston, Iredell and Catawba counties revalued property this year. Although the tax rates went down in Gaston and Iredell, many people will be paying more than last year because their homes are valued for more money.



2002 vs. 2007

Counties revalue property in different years. The state uses a formula to equalize tax rates, reconciling the lag between those assessments and market values. By this measure, Mecklenburg stayed steady over five years. Except Lincoln, the other counties raised taxes.



SOURCE: Observer analysis of N.C. Department of Revenue and N.C. Association of County Commissioners data
NOTE: Union figure includes countywide school tax, now part of property rate.



OBSERVER FILE PHOTO
Jars of lightning bugs, that longtime summer staple, are harder to find around Charlotte as urban sprawl and light pollution push the insects out of the metropolitan area.

DATES FOR LIGHTNING BUGS HARD TO FIND

Summer nights' little lights go dim

Fireflies grow scarce, defeated by sprawl, light and pesticides

BY MARK WASHBURN

mwashburn@charlotteobserver.com

Bulldozer blades and puffs of poison are getting the blame for dimming one of summer's whimsical attractions - the flickering mating ritual of fireflies.

Suburbia's flood into once-rural areas seems to be scouring away venues for the evening enchantment, which nowadays burns brighter in memory than in nature.

Fireflies are most at home in meadows, fields or wetland borders. Day by day, these areas are being scraped down to red clay for subdivisions, shopping centers and parking lots. And night by night, fewer lightning bugs are among us.

No one seems to have made a scientific study of the critters' dwindling ranks, but plenty of circumstantial evidence exists.

"Some species I haven't seen in 15 years," says James Lloyd, one of the nation's foremost firefly researchers.

He started studying them in 1962 and is still at it, at age 74, at the University of Florida. He wrote the fireflies article in the

SEE FIREFLIES | 7A

'No closing costs' can add up fast

Beazer from IA

seller and loan broker.

As the seller, Beazer won business for its mortgage arm by promising incentives. As the broker, Beazer in some cases recouped those incentives by charging higher interest rates and fees.

In effect, instead of receiving incentives, those buyers were financing their own closing costs. They ended up paying more than if they had foregone the incentives and obtained a lower interest rate from a different company.

An Observer analysis of federal data indicates the mortgage arms of other builders also charged higher rates on average to customers in the Charlotte area than did other mortgage companies. The Observer focused on Beazer as part of a broader investigation of the company's sales practices.

Financing customers' closing costs was among a number of ways Beazer reduced the upfront cost of home ownership by increasing the long-term cost.

The strategy was lucrative for Beazer. The Observer examined two dozen sets of paperwork provided by people who bought homes since 2000 in five local Beazer developments. For every \$1 the company spent on incentives — money that buyers viewed as a gift — the company made \$1.20.

It also allowed some people to buy homes they couldn't afford. At least 11 Beazer developments in the Charlotte area have foreclosure rates at or above 20 percent, the Observer has reported. An Observer analysis shows the financing of closing costs was among the factors associated with an increased chance of foreclosure.

Beazer did not respond to requests for comment. The company has disclosed in regulatory filings that its board of directors is investigating its mortgage practices.

Loopholes in regulations

Significant loopholes in federal mortgage regulations make it easy for any builder with a mortgage arm to lure buyers with illusory incentives.

■ A builder can advertise NO CLOSING COSTS or other incentives for a customer who uses its mortgage arm without explaining it will charge a higher interest rate to recoup those incentives.

■ The mortgage arm must provide a "Good Faith Estimate" of loan terms to allow comparison shopping, but there is no law against being intentionally misleading.

■ None of the documents presented to the borrower at closing must clearly state that the loan carries a higher-than-necessary rate.

There is some evidence that suggests builders are taking advantage on a broad scale.

The Observer looked at more than 35,000 government-insured mortgage loans made in the Charlotte area from 1999 through 2004. Because the government promises to repay lenders if borrowers don't, the loans can carry the same interest rates as loans to low-risk borrowers.

The Observer found that loans originated by the mortgage arms of builders carried average interest rates 0.38 percentage points above the market rate, compared with 0.2 points for loans originated by companies unaffiliated with a builder.

The average rate on Beazer loans was 0.5 percentage points above market, the highest for any builder. On a \$120,000 loan, that is a difference of about \$500 a year in additional interest payments.

The Department of Housing and Urban Development in 2002 proposed closing some of the loopholes in federal mortgage law, but industry opposition ended the attempt. A HUD spokesman said the department may introduce a revised proposal in the near future.

The N.C. banking commission, which regulates loan originators, is examining the practices of builders with mortgage arms, according to Mark Pearce, the head of enforcement. He said his office is responding to numerous complaints from independent companies that the mortgage arms capture borrowers unfairly and prevent free-market competition.

To be sure, builders have no monopoly on surreptitiously charging higher interest rates. Independent mortgage brokers can do the same thing.

Furthermore, builder incentives are often legitimate and can reduce the cost of buying a home by thousands of dollars.

And financing closing costs by charging higher interest rates — when it is done with the customer's knowledge and consent — can be an attractive and appropriate option.

Incentives prove lucrative

Atlanta-based Beazer, one of the nation's most prolific builders, in 1996 became one of the last large builders to create a mortgage operation.

Builders moved into the business following deregulation of the mortgage industry, seeing a natural opportunity to make more money from customers.

By 2003, the year Franklin bought her home, Beazer Mortgage was serving 66 percent of the company's homebuyers. It arranged more than 10,000 loans and posted its best financial performance to date, earning almost \$2,600 on each, according to the company's filings with securities regulators.

Other large builders were writing loans for as much as 80 percent of their buyers.

The success of the mortgage arms was built on the use of incentives. Federal law requires builders to accept loans from any source. Beazer and other builders offered financial rewards to customers who stayed in-house.

In the Charlotte area, Beazer often offered to contribute a sum equal to 3 percent of the sales price toward closing costs.

It would help pay the lawyer, the taxes and other fees associated with buying a home. At times Beazer offered other incentives such as paying the interest on the buyer's mortgage for six months, or cutting the price of a home.

In June, Beazer advertised a special, "Cool Homes. Hot Savings," deal in markets including Charlotte. Buyers who agreed to

THE HIGH COST OF BEAZER MORTGAGES

Beazer Mortgage's total compensation on the 24 loans examined by the Observer averaged 5.4 percent of the loan amount, about three times the

industry average.

Some of the money came from "yield spread premiums," collected for charging a higher interest rate.

HIGHER INTEREST RATES

In each of the 24 cases examined by the Observer, Beazer collected a bonus called a yield spread premium, which is paid when a customer receives a higher-than-necessary interest rate.

Beazer works as a mortgage broker, matching borrowers with lenders. Lenders make more money from loans with higher interest rates, so they pay bonuses to brokers who charge customers higher rates.

On average, Beazer got a bonus of \$2,822 for charging higher interest rates on the loans. In all but two cases, the bonus was paid by National City Corp. of Ohio, the company that approved and funded most of Beazer's loans in the Charlotte area.

Beazer was recouping the money it had spent on closing costs by charging its customers higher interest rates. In effect, instead of receiving incentives, buyers were financing their own closing costs.

None of the 24 said they were aware this was happening.

Federal law requires loan originators to provide a "good faith estimate" of loan terms. Beazer's good faith estimates do contain a standard disclosure at the bottom that "Beazer may receive a fee for ... premium pricing up to 1.625%," referring to the yield spread premium.

But the reference is obscure. Also, in 18 of the 24 cases, the actual yield spread premium exceeded this percentage.

"The yield spread premium disclosure as it currently exists is oftentimes a cryptic reference at the bottom of the good faith estimate," said HUD spokesman Brian Sullivan. "And there's nothing that compels lenders to make a clearer disclosure."

LEASA WRIGHT'S EXPERIENCE

Leasa Wright paid \$126,149 in June 2003 for a Beazer home in northern Charlotte. The closing costs were about \$4,200. Wright's documents show Beazer paid most of those costs on her behalf.

The documents also show that Beazer arranged a loan for Wright with a 6.5 percent interest rate. The market average was about 5.24 percent. Wright says she wasn't told her rate was higher than necessary.

Beazer received a yield spread premium of \$7,286 from National City.

Wright was charged about \$87 a month in extra interest. She says that she cannot afford her monthly payments.

"It's good you can get a house, but what if you can't stay in it?" she mused recently. "I know so many people that had houses, but they don't have them anymore."



HIGHER CLOSING COSTS

In 20 of the cases examined by the Observer, Beazer collected a fee called a loan discount, which is charged to reduce a customer's interest rate. The Observer found no indication that borrowers' interest rates were reduced in those cases.

Most of the loans Beazer arranged for buyers in the Charlotte area were insured by the Federal Housing Administration, which encourages lending to lower-income families by promising to repay the lender if the borrower does not.

The FHA limits mortgage brokers such as Beazer to a fee equaling 1 percent of the loan amount, the industry standard.

Beazer collected that 1 percent fee. Then it collected a loan discount fee that averaged 2 percent of the loan amount.

The combination netted Beazer an average of \$3,311 on the 24 loans examined by the Observer.

Typically, a borrower's interest rate is reduced by up to 0.25 percentage points for each lump sum payment equaling 1 percent of the loan amount. But the loans examined by the Observer carried interest rates at or above the market average despite the discount points.

"Quite often, a discount point in the subprime market doesn't mean anything," said Kathleen Keest of the Center for Responsible Lending.

She said only one state, Iowa, requires companies that collect a discount fee to tell the borrower how much the interest rate was reduced. She said it was quite common in other states for companies to collect the fee without reducing the interest rate.

WILLIE McCULLOUGH'S EXPERIENCE

Willie McCullough paid \$102,218 in April 2002 for a Beazer home in northern Charlotte. His sales contract shows that Beazer agreed to contribute toward his closing costs an amount equal to 3 percent of the sales price, or \$3,067.

That should have been enough to cover all the closing costs, which averaged about 2 percent of the loan amount in North Carolina, according to a 2006 survey by financial Web site Bankrate.com.

But despite Beazer's contribution, McCullough was still charged an additional \$4,497 in closing costs, including a discount fee of \$4,207, or 4.18 percent of the loan amount. He said the fee was not explained.

In general, it should have reduced McCullough's interest rate by up to 1 percentage point.

But McCullough received an interest rate of 7 percent, about the same as the market average.

HOW ABOUT YOUR NEIGHBORHOOD?

In a four-part series, the Observer found Beazer Homes USA sometimes crossed the line between selling to people who could barely afford homes and selling to people who couldn't. Read it at www.charlotte.com/foreclosure

An online map allows you to scan Mecklenburg developments for foreclosures.

Beazer Charged Higher Rates



use a Beazer loan were offered up to \$10,000 in upgrades such as appliances or fancy countertops.

Critics say incentives are often a false promise because builders charge higher interest rates to recoup the money spent.

The building industry says companies are simply sharing with customers the money they

save by arranging loans, and that the deals are generally good for the customer.

"Nobody is making you buy that house," said Bernard Markstein, senior economist at the National Association of Home Builders, the industry's trade

group. And if you do, he asked, "Who's at fault? The company for trying to make an extra dollar or two? Or me for being lazy and not shopping around?" — DATABASE EDITOR TED MELLNIK CONTRIBUTED.

Binyamin Appelbaum: 704-358-5170

MASSACHUSETTS REGULATORS FILE LAWSUIT

For elderly investors, instant experts abound

Insurance agents with easy-to-get 'credentials' may give bad advice

BY CHARLES DUHIGG

New York Times

Elderly clients thought they had every reason to trust Michael DelMonico as a financial counselor. After all, the Massachusetts insurance agent had become a "Certified Senior Adviser" in 2002, a credential he made sure to advertise on fliers sent to retirees.

He did not mention how easy it had been to get that title.

He had paid \$1,095 for a correspondence course, then took a multiple-choice exam. Like more than 18,700 other applicants since 1997, he passed.

DelMonico is one of tens of

thousands of financial advisers working hand-in-hand with insurance companies to market themselves to older Americans using impressive-sounding credentials.

Many of these titles can be earned in just a few days from for-profit companies, and sound similar to established credentials, like Certified Financial Planner, that require years of study, difficult tests and extensive background checks.

Many graduates of these short programs say they only want to help older Americans. But they are frequently dispensing financial counsel they are unqualified to offer, advocates for the elderly say.

And thousands of them are paid by some of the largest insurance companies to sell elderly clients complicated investments that economists say most retirees should never own.

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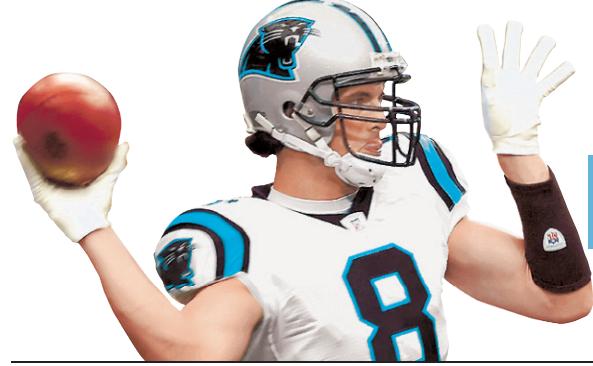


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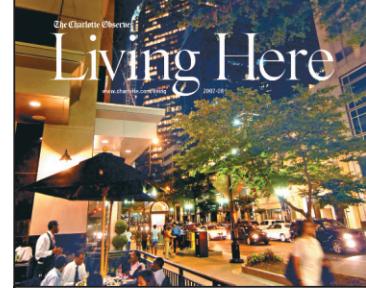
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INSIDE



BIGGEST EVER GUIDE TO LIVING HERE

Our annual guide to the Charlotte region, inside today's paper, is a record 184 pages. You'll want to keep it year-round - it has information on nightlife, neighborhoods, food, shopping, schools and everything else you need to get the most out of living here.

MoneyWise | 1D

Rising rates put borrowers in bind

Thousands of homeowners with adjustable rate mortgages could see jumps in their interest rates this quarter. Credit counselors can help navigate the waters.

Local & State | 1B

Delays spark doubt as bond vote looms

In five weeks, voters decide whether to approve a \$516 million Charlotte-Mecklenburg school bond package. In north Mecklenburg, voters yearn for new schools but are frustrated by slow progress so far.

Parade Magazine

Your health: Learn how to take control

Get tools for becoming a more capable manager of your family's health with this practical guide.



Sunny
Low: 49. High: 79.
Pleasant today and Monday with clear skies and comfortable temperatures. **Forecast: 8B.**

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Promises upfront, deals on the side

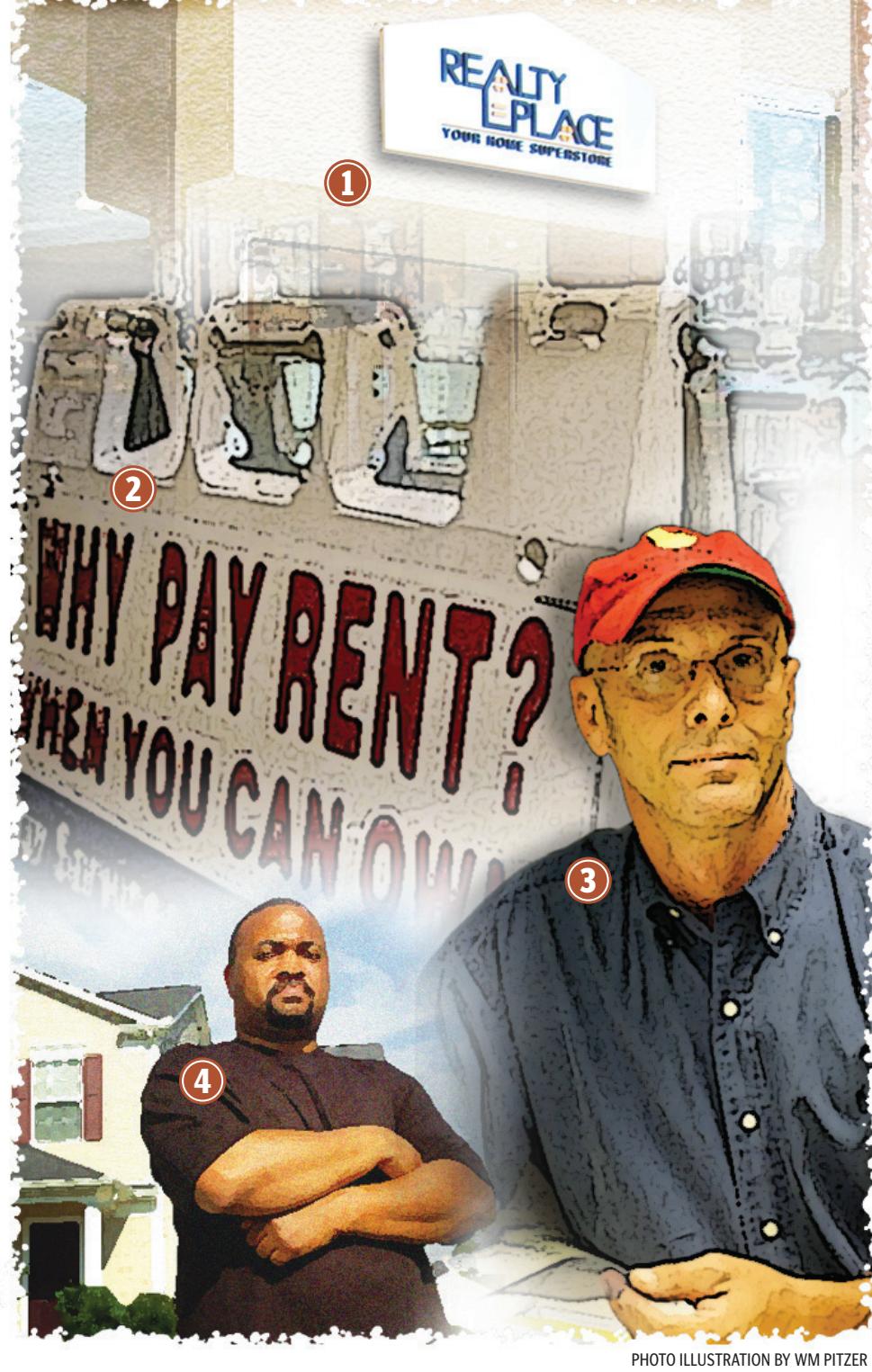


PHOTO ILLUSTRATION BY WM PITZER

Real estate agency took bonuses from builders it vowed to fight

Observer Investigation

Over the past two years, the Observer has reported extensively on the foreclosures afflicting a crescent of new development west, north and east of uptown Charlotte. The reporting has focused on the role of builders and mortgage companies who helped some lower-income families buy homes they could not afford.

Realty Place delivered many of those buyers.

LENDER OF LAST RESORT | 8A

Realty Place spinoff relied on aggressive loan programs.

COMING MONDAY

N.C. regulations fall short of protecting customers.

① The Realty Place store at Northlake Mall

② The company targeted first-time homebuyers

③ John Heinemann developed the strategy

④ Reggie Kelly was surprised he could buy a home

BY BINYAMIN APPELBAUM AND PETER ST. ONGE
bappelbaum@charlotteobserver.com
pstonge@charlotteobserver.com

The stores sat facing the food court at Eastland Mall, near the Sears at Carolina Place, just down from the movie theater at Concord Mills. "Realty Place," said the blue-and-yellow signs. "Your Home Superstore." It was 2002, the middle of the subprime mortgage boom. A young real estate agency was fishing for customers in an unlikely place.

Realty Place was, its principal owner says, the most progressive and aggressive agency in Charlotte. It targeted people with modest incomes and ragged credit, many of whom had been shunned by other companies.

Inside its stores, agents signed contracts with customers promising to represent their interests exclusively. Realty Place said it would take care of them and defend them against home builders seeking to prey on their inexperience.

"Their goal is to beat you up financially," agents were trained to say. "Our goal is to beat them up for you."

But an Observer investigation shows Realty Place worked closely with the builders it had vowed to beat up. The company funneled buyers into low-priced starter-home developments, many of which are now plagued by foreclosures.

Realty Place's marketing, sometimes subsidized by builders, regularly and dramatically understated the cost of buying a home.

Its agents helped customers qualify for loan programs, funded by builders, that were seldom appropriate for lower-income families.

Most of all, the company collected millions of dollars in bonuses from

SEE REALTY PLACE | 8A

DUKE UNIVERSITY

President apologizes for actions in lacrosse case

Brodhead says school didn't do enough to reach out to players

BY JANE STANCILL AND ANNE BLYTHE
(Raleigh) News & Observer

DURHAM — Duke University President Richard Brodhead apologized Saturday for the school's lack of full support for the three lacrosse players falsely accused last year of raping an escort service dancer.

It was Brodhead's first public apology for the university's handling of the case, which drew intense media attention.

Brodhead said his biggest regret was "our failure to reach out to the lacrosse players and their families in this time of extraordinary peril. Given the complexities of the case, getting this communication right would never have been easy. But the fact is that we did not get it right, causing the families to feel abandoned when they most needed support. This was a mistake. I take responsibility for it, and I apologize."

He added that some faculty made statements that were "ill-advised and divisive" and Duke should have done more to underscore that these were the beliefs of in-

terest.

Soon after moving to Mooresville from Oakley, Calif., last year, Carrie Zocchi encountered her first bit of culture shock.

Her neighbors invited Zocchi and her three children over for pie. Expecting apple or cherry, she fed the kids supper and brought them over.



It started with Alesha Hollingshead (second from left) and her family, who moved from Northern California to Mooresville last year seeking a better quality of life. Soon, four more families followed. Adults (L-R): Sheri Garrett, Hollingshead, Gary Garrett, Doug and Sandy Shearer, Bill and Pati King, and Carrie Zocchi. Children (L-R): Austin Hollingshead, 6; (blocked) Alyssa Zocchi, 6; Alexis Hollingshead, 7; and twins Emma and Katie Zocchi, 3.

IS THIS STILL THE SOUTH?

As transplants stream in, area's way of life evolves

BY LEIGH DYER
ldyer@charlotteobserver.com

Soon after moving to Mooresville from Oakley, Calif., last year, Carrie Zocchi encountered her first bit of culture shock.

Her neighbors invited Zocchi and her three children over for pie. Expecting apple or cherry, she fed the kids supper and brought them over.

Why did you eat already? the neighbors asked incredulously. We told you we were having pizza.

Pie, of course, is not a nickname for pizza in the South. But it is in New York, where Zocchi's neighbors had moved from. And in a region increasingly comprised of transplants, odds are good the first bit of local culture a newcomer experiences here won't be Southern.

"Charlotte is not the South at all," said Bill King, Zocchi's father, who followed his daughter's family from California and settled in Huntersville last fall - part of a joint migration of

five interrelated families. "Charlotte is like Sacramento."

The steady march of transplants during the past two decades means that in some parts of the Charlotte area, a majority of the residents were born outside North Carolina, according to data released this month by the U.S. Census Bureau.

An Observer analysis found:

■ Of the residents living in the nine-

SEE LIVING HERE | 14A

Online Extras
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Promises, with deals on side

Realty Place from IA

builders in exchange for finding buyers for their homes.

The Observer found that Realty Place sometimes failed to ensure that those bonus payments appeared on settlement statements. Federal law requires bonus payments to be recorded. More broadly, in more than 50 interviews with Realty Place customers, the Observer found no one who was aware of the bonuses. Failing to tell a customer about a bonus violates state regulations.

The payments also raise questions about the company's presentation of itself as a buyer's agency.

"It's supposed to be like your mother helping you out on a real estate transaction," said Jon Boyd, president of the National Association of Exclusive Buyer Agents. "The idea that your mother would take a kick-back in your transaction, well, that's not appropriate."

Between 2002 and 2005, Realty Place guided more than 4,000 people into a first home in Mecklenburg and surrounding counties.

Nationwide, less than 3 percent of all home purchases historically end in foreclosure. But a disaster is unfolding in starter-home neighborhoods in Mecklenburg County. About 14 percent of starter-home buyers in 2002 have lost their homes to foreclosure. The rate among Realty Place customers that year is higher, at about 17 percent.

John Heinemann, the principal owner of Realty Place, said his customers were responsible for their own financial decisions. He said several thousand people were able to buy homes only with Realty Place's help, and it was inevitable that some would lose those homes. "We filled the void due to our willingness to work with anyone who wanted to buy a home," Heinemann said.

Of the company's relationship with builders, he added, "It was a business relationship where the terms were understood upfront, that we were representing the buyer."

Kris Boschele, who ran the company's daily operations, and a third partner, Randy Jordan, provided statements to the Observer that both said in part, "Realty Place has always strived to provide the best, most competent services to our clients within the constraints of all legal and ethical guidelines."

Realty Place was the creation of Heinemann, a marketing veteran who decided he could build a better real estate company after a frustrating homebuying experience.

Boschele was the engine, intense and gregarious, who bought a home with Heinemann's help and then became his personal assistant.

Both are competitive men - Heinemann a former boat racer, Boschele an ex-college football star. Both sought an edge on competitors, homebuyers and home builders - and ultimately on each other.

In a few years, they expanded Realty Place into one of Charlotte's largest real estate companies.

And then, almost as quickly, it was struggling to survive.

A new system

John Heinemann saw himself as an analyst, not a salesperson. He had a background in manufacturing systems and an inventor's confidence, and in 1994, he decided the real estate industry needed a fix.

Heinemann, now 51, had been galled by inefficient sales agents when he relocated from California to Charlotte. He created a real estate system: software and sales scripts and binders filled with organizational plans.

In 1996, he put his ideas to work for Lester McGary, who owned one of Charlotte's first exclusive buyer's agencies.

The concept of buyer's agency originated more than a decade earlier on the West Coast. Traditional real estate agents were beholden to the seller, who paid the commission. Buyer's agents, although still paid by the seller, signed contracts promising to represent buyers. "We like to think of ourselves as advocates for those people wanting to become homeowners," McGary said in a recent e-mail.

The philosophy appealed to Heinemann. But he soon butted heads with McGary, who he felt limited the potential of his real estate system, and left after a year.

The relationship devolved into a McGary lawsuit alleging Heinemann had continued to advertise as if he were still associated with McGary's company. A jury ruled for McGary.

"I really learned very little from McGary," says Heinemann.

Says McGary: "You can only lead a horse to water."

In 1997, Heinemann joined a new buyer's agency started by a friend: Performance Realty, later known as Realty Place. His timing was excellent. A revolution was beginning.

The federal government, seeking to expand home ownership dramatically, was loosening restrictions on

RISING PAYMENTS WERE TOO MUCH



JEFF SINER - jsiner@charlotteobserver.com

The Kellys lost this home in Charlotte to foreclosure. "I think if everything was like it was supposed to be, I couldn't have bought the house," Reggie Kelly said.

Buyer blames himself - and agent

He couldn't afford home, ended up in foreclosure

Reggie Kelly blames himself for buying a home he couldn't afford, but he wishes he had some help along the way.

Kelly met with Kris Boschele in 1999 on a friend's recommendation. Boschele was a Performance Realty agent. Kelly and his wife wanted to buy a home.

The Kellys had rented a house in Wilmore for 11 years. Kelly, now 40, worked in environmental services. His wife worked in airline food services. They paid \$300 a month in rent.

Boschele gave Kelly a sheet showing he could afford a \$900 monthly mortgage payment. The sheet showed the "effective monthly payment" would be only \$712 because of the tax benefits of home ownership.

Days later, the couple visited a mobile home lot in Belmont, but the dealer said their credit wasn't good enough to qualify for a loan. Driving back to Wilmore, the couple saw balloons outside a Beazer Homes development and decided to stop in.

The agent told them they could buy a home. They signed a contract the same day and called Boschele the next morning. He recommended a mortgage company. In March 2000, after working on their credit for several months, the Kel-

lys paid \$116,000 for a newly built home in Brookmere, in northwest Charlotte.

They were thrilled at first. Then they were surprised by rising mortgage payments that they struggled to meet. They relinquished a car. Kelly's wife took a second job. By the summer of 2002, the mortgage company was threatening to foreclose.

Kelly says he called Boschele for advice. "He said, 'I'm sorry to hear that,'" Kelly recalled. "I didn't call him no more."

The Kellys persevered four years longer, twice restructuring the loan. By 2006, the payments had reached \$1,300 a month and they surrendered to foreclosure.

Kelly said he blames himself. "I

should have known what I needed to know." He blames the lender and the builder for taking advantage of his ignorance. He blames Boschele for failing to protect him.

He said the tax benefits Boschele promised never fully materialized. He believes Boschele should have accompanied them as they looked for a home, and helped them understand the terms of their mortgage.

"I don't think he did his part," Kelly said. "He didn't help us."

Boschele did not respond to specific questions, but in a statement provided to the Observer denied wrongdoing during the entirety of his time with Performance Realty and Realty Place.

— BINYAMIN APPELBAUM



Kris Boschele: "I know I can lay my head on my pillow at night."

mortgage lending. Home builders were responding with new, low-priced developments.

The missing ingredient: companies that would go tell lower-income families the news.

Selling to renters

Realty Place left sales brochures at apartment doors. It invited renters to its offices for a homebuying seminar and dinner, paid for by a builder. It opened stores in every Mecklenburg mall except affluent SouthPark, and used the windows as billboards.

The company's marketing was grounded in an observation: Many buyers focus on the monthly mortgage payment, not the price. As managers often reminded agents, "We don't sell homes, we sell payments."

The company also aimed to convince people that owning was cheaper than renting. An ad distributed at a Concord apartment complex showed a \$126,000 home with the slogan, "Compare \$643 To rent!"

The number wasn't real. The projected monthly payment actually was about \$1,000.

From a Realty Place 'Phone Spiel'

Are you renting now -----?

How many bedrooms and baths -----?

What are you paying in rent -----?

\$-----

WHOAH*=@\$#!!!

We need to get you in a house soon! (name)!

Between 1999 and 2003, Realty Place and its predecessor Performance Realty were admonished five times by the N.C. Real Estate Commission for misleading customers with compare-to-rent ads that lacked required disclosures. The company apologized each time, then continued to publish ads that understated the true cost of home ownership.

Tom Miller, director of legal services for the N.C. Real Estate Commission, which enforces state real estate regulations, said the pattern of violations was unusual and troubling.

How did Realty Place justify "\$643" in the Concord ad? The company claimed it was an "effective monthly payment," reflecting adjustments including a projected deduction on federal income taxes.

The government lets everyone take a standard deduction from their taxable income. Homeowners can also deduct mortgage interest payments that exceed the standard deduction, a major benefit of home ownership. But

the tax benefit diminishes for people with smaller mortgages.

Kenneth Porter, a Charlotte accountant, was paid by Performance Realty to calculate actual tax savings for hundreds of customers. Not once, Porter said, did anyone come close to saving \$221 a month, the amount reflected in the Concord ad.

"No way," said Porter. "That's pie in the sky."

Few saved more than \$100 a month, he said. Some saved nothing.

Eventually, Porter said, the company stopped sending him customers.

Builders and bonuses

Customers flocked to Realty Place. On some Saturdays, the lines of hopeful people stretched back into the malls. "We had folks that were ready to write up contracts before they ever saw anything," said former agent John McQueen.

Between 2002 and 2005, about 85 percent of Realty Place's customers bought new homes. The company referred to existing homes as "used homes."

New construction was an unusual focus for a real estate agency, but Heinemann says it was a natural fit for his clients. Builders could help marginal buyers qualify for loans by providing money for down payments and more money to help with mortgage payments.

New homes also were more lucrative for Realty Place. In addition to a standard commission, builders paid Realty Place a bonus on more than 60 percent of transactions, company records show. The average bonus increased from about \$1,400 in 2002 to more than \$2,400 in 2005.

Builder representatives regularly attended Realty Place's internal sales meetings, where they would pitch their developments, and latest bonus offers.

"They loved us, there's no question," said King Baldwin, one of Realty Place's most successful agents and later a part-owner of the company.

Paying bonuses to real estate agents is legal and fairly common, though it is unfamiliar to many buyers.

Realty Place signed contracts with its customers that said it might receive a bonus. But N.C. real estate regulations still require the agent to tell the customer specifically about the bonus on a particular home before the buyer signs a contract to purchase that home.

"If I'm a buyer, and if you are motivated by something other than loyalty to me, I want to know that," said Miller of the N.C. Real Estate Commission. He said it was a "serious problem" that so many customers said they were never told that the company was receiving a bonus.

Heinemann said he was not aware agents were required to tell customers about bonuses on specific homes.

"I trained my agents to be honest, to be ethical and to disclose everything," Heinemann said. "I don't remember if I had a line in there saying, 'Make sure you tell them that you're going to be receiving a bonus.'"

He said his agents did list bonuses on settlement statements, as required by federal law.

Settlement statements are not public records, but the Observer obtained documents from 11 Realty Place customers. Six of the statements show no

SEE REALTY PLACE | 9A

Timeline

1996

John Heinemann, a former boat racing team owner, joins McGary & Associates real estate firm in Charlotte.

1997

Heinemann leaves McGary to team up with a friend at Performance Realty in east Charlotte.

1998

Kris Boschele walks into Performance Realty wanting to buy a home. Heinemann soon hires him.

2000

Randy Jordan, a former sales agent for a home builder, starts Realty Place, a competitor of Performance Realty.

2002

Heinemann, Boschele and Jordan merge the companies as Realty Place. Boschele runs the daily operations.

2006

Jordan sells his stake in the company to two former agents, King Baldwin and Buddy Cook.

▼

2007

Boschele cedes his stake in the company to Heinemann, who takes over daily operations.

Promises upfront, deals on the side

Realty Place from 8A

bonus; in each case, company records show a bonus was paid.

In several additional instances, company records suggest the bonus was not on the settlement statement, also known as a "HUD."

A note on one transaction reads, "Bonus not on HUD. Will come separately."

Another, "HUD reflects only \$1,000 realtor bonus, add'l \$2,000 being sent."

Family ties

John Heinemann trained Kris Boschele with index cards. As his protégé talked to customers on the phone, Heinemann would slip him tips on selling. "He paid attention," says Heinemann. "He wrote notes. You can't help but like Kris."

Boschele, now 32, had just graduated from Slippery Rock University in Pennsylvania, where he was an all-conference wide receiver. He was confident and aggressive and the kind of employee Heinemann treasured — a hard worker who always answered Heinemann's calls.

In 2002, Heinemann put Boschele in control of daily operations after Performance Realty absorbed Realty Place, a rival company that had been run by Randy Jordan. Some agents didn't like the decision.

"A lot of people left because they didn't like Kris," says Baldwin, one of the agents who stayed. "He was young and brash, and he'd walk in there like he owned the world."

Heinemann had also hired Natalie Botsis, Boschele's girlfriend and later his wife.

He said he soon helped her find a new job. Beazer Homes USA was one of the largest starter-home builders in the Charlotte area, but the company had no sales representative dedicated to Performance Realty. Heinemann recommended Botsis for the role.

Beazer became Realty Place's largest client. Between 2002 and 2005, more than 420 Realty Place customers bought Beazer homes.

In turn, Realty Place records show Beazer paid the company more than \$2.2 million, including about \$700,000 in bonuses.

On average, Beazer paid Realty Place 3.9 percent of the sales price in commission and bonus, compared with Realty Place's overall average of 3.4 percent. In 2003, real estate agents in the Southeast averaged 2.7 percent of the sales price, according to REAL Trends, a Colorado data firm.

In Mecklenburg County, one-third of Beazer homes purchased through Realty Place in 2002 have been lost to foreclosure.

Of the six settlement statements that showed no bonuses, all were for sales of Beazer homes. Federal law also holds the seller responsible for disclosing a bonus.

Beazer declined to comment, citing an ongoing federal criminal investigation of its business practices.

The relationship between Kris Boschele's agents and his wife came to exemplify the blurred lines between Realty Place and home builders.

Though she worked for Beazer, Natalie Boschele sometimes worked from an office at the Realty Place location in University City.

Customers describe her as polished and persuasive. Many remember her black Mercedes, which seemed impressively out of place in Beazer's starter-home developments. They also remember her confidence that they could afford a home.

Some customers remember being introduced to her without being told that she worked for Beazer. In some cases, they say they went with her to see homes, believing that she was their real estate agent.



N. Boschele

A lawyer for Natalie Boschele provided a statement to the Observer denying any wrongdoing.

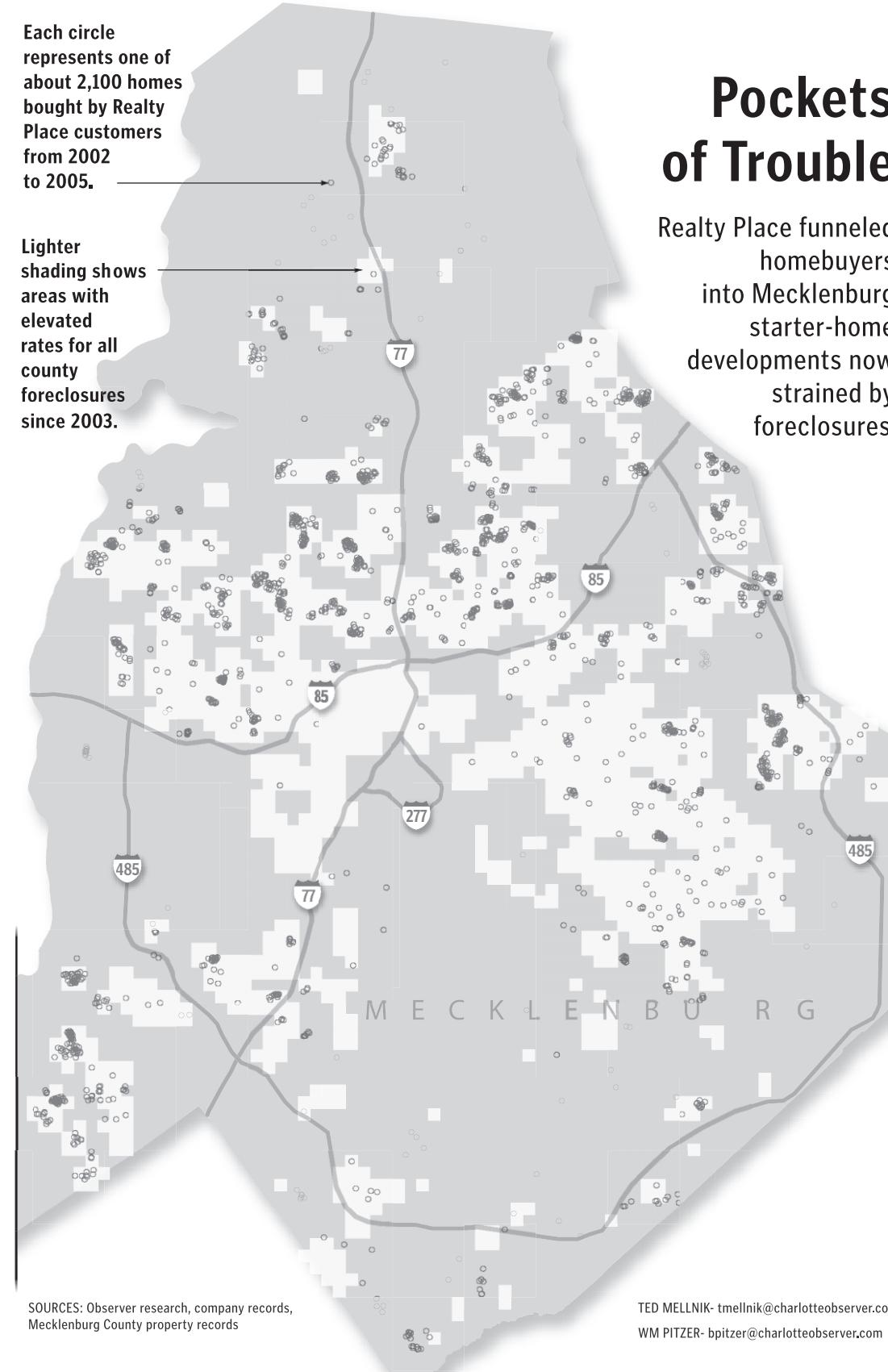
A few homebuyers interviewed by the Observer said it became obvious that Realty Place effectively was acting as a sales agent for builders such as Beazer. But many more say they believed they were having a normal experience.

Linda and Clyde Bower bought a Beazer home from Natalie Boschele in 2002 under the guidance of Realty Place agent Terry Brock.

Clyde Bower, now 36, is a freelance Web developer. His wife is an X-ray technician.

They say Brock showed them Beazer developments and Eastwood developments. "We flat-out refused to buy from Eastwood because the first sales manager we met was a complete jerk," Clyde Bower recalled. "So we just saw Beazer homes after that."

They paid \$157,000 for a home in



SOURCES: Observer research, company records, Mecklenburg County property records

Pockets of Trouble

Realty Place funneled homebuyers into Mecklenburg starter-home developments now strained by foreclosures.

UNIVERSAL MORTGAGE

Home loans were ill-fated

Buydowns weren't meant for lower-income families

Kris Boschele and John Heinemann decided to enter the mortgage business in 2002, creating a company called Universal Mortgage Funding.

Between late 2002 and early 2005, Universal arranged more than 300 loans, mostly for customers of Performance Realty and later Realty Place. The vast majority were insured by the Federal Housing Administration, which encourages lending to lower-income families by promising to repay lenders if borrowers don't.

Heinemann describes Universal as "a lender of last resort," serving customers who couldn't get loans elsewhere. "It made sense for us to try to get them a home even if we didn't make any money on the loan," he said.

How did Universal qualify people for loans where other lenders failed?

An Observer review of federal data shows the company relied on a kind of loan that was never intended for broad use by lower-income families. Buydown loans increase the amount that customers can borrow by reducing the monthly payment for the first two years of the loan.

FHA rules restricted the use of buydowns to borrowers whose incomes are likely to increase by the third year. Nationwide, buydowns accounted for less than 5 percent of FHA loans. But Universal arranged buydowns on about 85 percent of its FHA loans, federal records show.

The company also helped customers avoid an FHA requirement that they make a 3 percent down payment. On about 90 percent of Universal's FHA loans, home builders provided the borrower with the required money, federal records show.

Heinemann and Boschele had tried to work with other mortgage companies. For a time, Performance Realty partnered with Fidelity & Trust Mortgage, a Maryland mortgage company that had offices in Charlotte.

Jeff Kennedy, who now runs his own mortgage business, worked for a few months in early 2002 as the Fidelity & Trust employee assigned to deal with customers from Performance Realty. Then he asked for a different assignment.

"It was a waste of my time," he said. "You'd look at 10 deals and eight of them couldn't even get a Bi-Lo card. They certainly couldn't afford a house."

Heinemann said Performance Realty soon cut ties with Fidelity & Trust because it wasn't offering competitive interest rates.

The Observer has reported over the past two years on the government's failure to ensure that companies followed the rules of the FHA program. FHA loans account for almost a quarter of recent foreclosures in Mecklenburg County.

The FHA has now barred both of the practices central to the success of Universal, eliminating buydowns in 2005 and prohibiting down-payment gifts earlier this year. Borrowers who received loans with either feature were more likely to foreclose.

Heinemann says Universal was shuttered because of the "headache to dollar ratio." But he acknowledged that the company also was close to losing its permission to arrange FHA loans because so many of its borrowers were defaulting.

About 15 percent of the customers who received FHA loans through Universal have lost their homes to foreclosure as of last month, compared with 10 percent of all customers who purchased homes through Realty Place.

— BINYAMIN APPELBAUM

HOW ABOUT YOUR NEIGHBORHOOD?
Online map allows you to scan Mecklenburg developments for foreclosures. Also, read our full series on foreclosures in the Charlotte area.
www.charlotte.com/foreclosure

What Are Real Estate Bonuses?

Real estate agents regularly make 2.5 to 3 percent commission on home sales. Home sellers sometimes pay a bonus on top of that commission to the agent who supplies a paying customer.

■ **The issue:** If an agent has extra financial incentive to guide someone to a particular house, that agent's quality of advice might be compromised and the universe of homes a buyer can choose from might be limited.

■ **How often are bonuses paid?** Some builders offer bonuses on all houses. Bo-

nuses also are often made in a slow market. Local agents say bonuses are offered on about 40 percent of newly built homes and about one-fourth of existing homes.

■ **The law:** Bonus payments are allowed as long as real estate agents disclose them to clients before contracts are signed.

■ **Defending bonuses:** Lester

McGary, founder of one of the first buyer agencies in Charlotte, says bonuses are a form of commission. Some sellers pay more than others, he says. "Although a buyer's agent may knowingly or unknowingly take a client to a property offering a higher commission, the buyer makes the decision to buy or not buy," he says.

■ **Against bonuses:** Gail Lyons, a Colorado Realtor and buyer agency pioneer who frequently lectures on real estate issues, said that if an agent has a relationship

with a seller in which the agent knows something extra is going to be paid, that's a conflict of interest.

Some Charlotte-area agents say they share some or all of bonus payments with the client.

"We give 100 percent back to the customer," says Charlotte's Julie Tuggle, a buyer's agent who has lobbied the state Realtors association to develop better agency disclosure requirements. "We don't even want the perception of conflict of interest."

— DATABASE EDITOR TED MELLNIK CONTRIBUTED.

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Patriots' Devonte Holloman finds a pass just out of reach.

New Bern 28
Independence 17
** infotext_p1 **
Penalties and dropped passes doomed the Patriots' bid for an eighth straight title, breaking their streak of 39 playoff wins.

Lincolnton 28
South Columbus 14

Western Alamance 62
North Gaston 36

Complete coverage
IN SPORTS

INSIDE

Local & State | 1B

Story brings help for injured soldier

John Hyland, the injured U.S. Army corporal featured in Saturday's Observer, won't have to worry anymore about how to get home to spend the holidays with his family.

Deaths | 1B

Brennan gave women a voice

Louise Brennan, the former N.C. lawmaker credited with giving Mecklenburg women the courage and incentive to enter politics, died Saturday at 85.

Mostly cloudy
Low: 47. High: 64.
Overcast with unseasonable temperatures today and tonight. Partly cloudy, warmer Monday. **Forecast**, 8B.

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New suburbs in fast decay

Foreclosures in starter neighborhoods lead to vacancies and crime



CMPD officer Brent Hartley looks at a damaged vacant house in the Windy Ridge neighborhood.
TODD SUMLIN-tsumlin@charlotteobserver.com

Easy-credit loans meant overextended homebuyers, concentration of problems

By LIZ CHANDLER AND TED MELLNIK
lchandler@charlotteobserver.com
tmellnik@charlotteobserver.com

A band of new suburban neighborhoods that held promise for thousands of Charlotte families is now struggling with crime, blight and falling home values.

These neighborhoods were hit hard by the wave of foreclosures rattling the nation. Damage is most visible in starter-home subdivisions across northern Charlotte, and in pockets in the east and southwest.

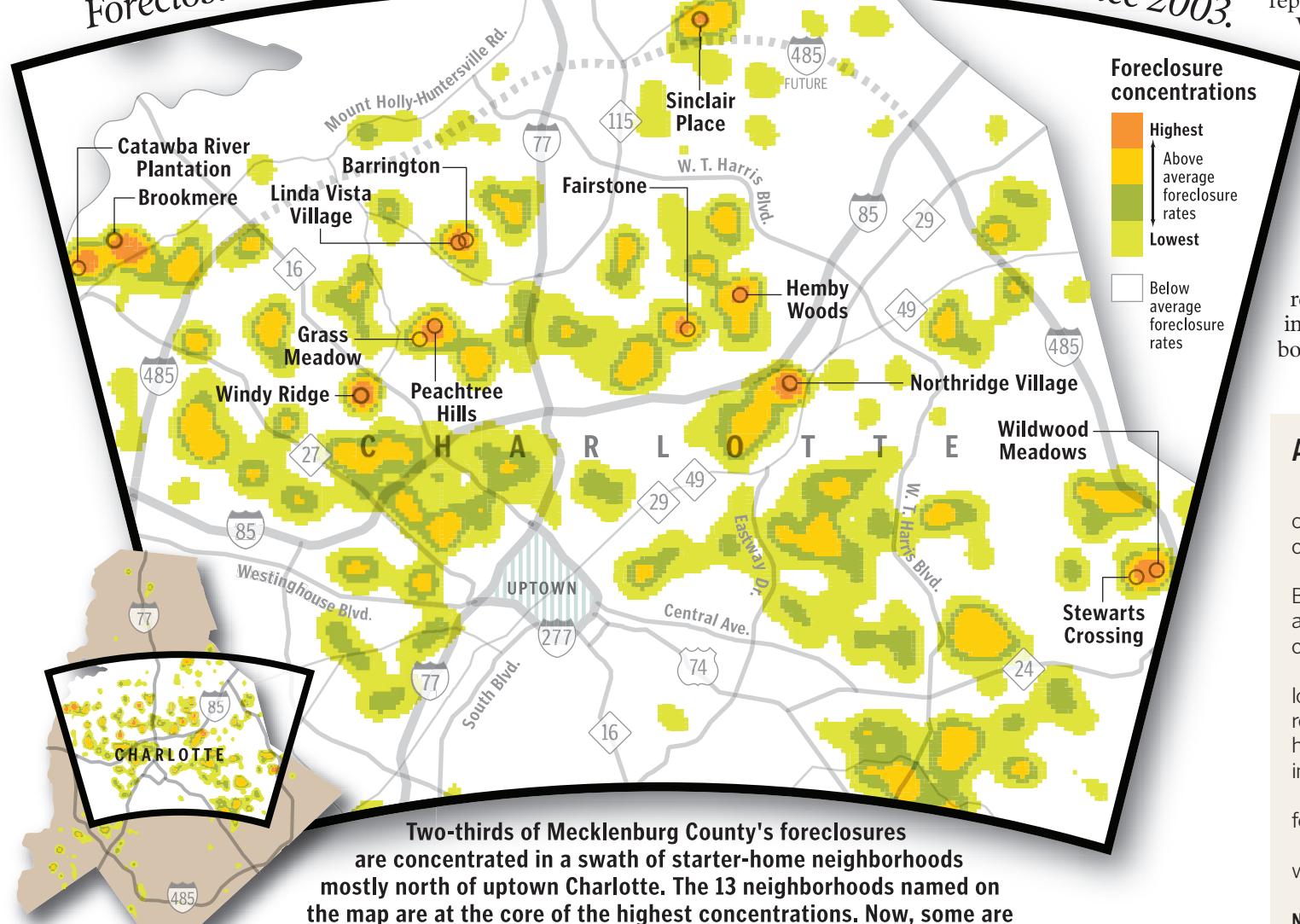
The best of them show subtle signs: Vacant houses. Overgrown weeds. Trash piled at the curb.

The worst of them already resemble decaying urban neighborhoods that keep police and housing inspectors busy – and cost Charlotte millions to repair.

While the crime rate citywide held steady, the rate in the heart of Charlotte's 10 highest-foreclosure areas rose 33 percent between 2003 and 2006, an Observer analysis found. All of them are suburban areas filled with starter-home subdivisions. They were built since 1997 with homes valued at \$150,000 or less.

Windy Ridge is 5 years old, but already 81 of its 132 homes have lapsed into foreclosure. Dozens stand boarded up or vacant, with windows

SEE FORECLOSURE | 13A



SOURCE: Observer analysis of Mecklenburg County property records

TED MELLNIK-tmellnik@charlotteobserver.com

WM PITZER-wpitzer@charlotteobserver.com

ONLINE VIDEO: Residents and police discuss trouble in the suburbs



WWW.CHRISTIAN.COM/foreclosure

ONLINE MAP: Check foreclosures in your neighborhood

25 DAYS TILL VOTING BEGINS

Huckabee surging; Dems' race tightens

McClatchy Newspapers

WASHINGTON — Former Arkansas Gov. Mike Huckabee has surged to a 12-point lead over former Massachusetts Gov. Mitt Romney among Republicans in Iowa, and he leads in South Carolina, too, according to a series of state-by-state polls for MSNBC and McClatchy Newspapers.

Huckabee, a former Arkansas governor who was struggling for recognition just weeks ago, leads Romney in Iowa by 32 percent to 20 percent. Romney had led there until the past few weeks.

Iowa voters will caucus on Jan. 3.

Huckabee's strength rose most from self-described "born-again" Christians, who are expected to deliver about 40 percent of the state's Republican vote.

He leads in South Carolina, 20 percent to 17 percent over former New York Mayor Rudy Giu-

McClatchy-
MSNBC Poll



liani, with Romney at 15 percent.

On the Democratic side, the poll found Sen. Hillary Clinton of New York retains an edge in Iowa, New Hampshire and South Carolina, but her lead in all three states is shrinking compared with earlier surveys.

The polls suggest that the Democratic race is so close that any of the top three candidates could win or finish third.

In South Carolina, where Democrats will vote Jan. 26, Clinton leads with 28 percent, Sen. Barack Obama of Illinois has 25 percent and former Sen. John Edwards of North Carolina has 18 percent. Some 24 percent of respondents were undecided.

For details on the poll, see 8A.

THE GIFT

25 STORIES FOR THE HOLIDAYS

Words to comfort mom and son



L.MUELLER - lmueler@charlotteobserver.com
This will be the first Christmas away from home for Ric Hill, 21, a Marine stationed in Iraq. His mother, Michelle Holley, lives in southwest Charlotte.

"The Gift" is a series about the things we've received, the things we've given, the things we remember. In big ways and small, they are gifts that have changed our lives.

By AMY BALDWIN
abaldwin@charlotteobserver.com

Michelle Holley is delaying Christmas.

Her southwest Charlotte home shows no signs of the holidays. No decorations or nativity scene. And Holley's family won't exchange gifts until everyone can be there – that is until her son gets back from his first Marine deployment in Iraq, hopefully by spring or summer.

"I'm going to put up my Christmas tree when Ric comes home," she said.

While Holley isn't hitting the shopping malls, she had to get son Ric Hill, 21, at least one present. After all, it's his first Christmas away from home.

So, she sent him a gift that would tell him

SEE GIFT | 15A

Online Extras Read previous stories in this series, go to WWW.CHRISTIAN.COM/thegift

New suburbs are in fast decay

Foreclosure from IA

smashed and doors kicked in. Vandals have ripped copper wire from walls. Vagrants and drug users frequent the empty houses – next door to families who thought they'd invested wisely in their northwest Charlotte suburb.

In east Charlotte, Laurie Talbot was recently awakened by gunfire in her 7-year-old subdivision. One bullet crashed into her house, through her son's bedroom, and then landed on her bedroom floor.

"I thought I'd bought a home in Pleasantville," says Talbot, who moved from New York last year. "I never imagined in my wildest dreams that stuff like this would happen."

She can't get out, she says. "With all the foreclosures ... there's no way I could sell my house for what I have it."

Overall, the Observer found more than 50 neighborhoods with elevated foreclosure rates of 15 percent to 61 percent. Virtually all of them are new starter-home subdivisions.

Loose lending standards and the lure of easy credit inspired families across the country to buy homes they couldn't afford.

Foreclosures followed as interest rates adjusted upward and put monthly payments out of reach.

More people could lose their homes next year, experts predict, when more loans adjust.

"Pay attention to this," Charlotte-Mecklenburg Police Chief Darrel Stephens told his commanders in November, as they examined a map of Charlotte's highest foreclosure areas.

"If these are not hot spots already, they will be. ... There are going to be a lot of challenges as we try to deal with families in crisis."

The suburban decline costs all of Charlotte.

Taxpayers must cover the increased cost for police, housing inspectors and other government services in these neighborhoods. Sinking home values mean less tax revenue. More students from lower-income families are moving to schools near these neighborhoods that are increasingly becoming rental communities.

Charlotte-Mecklenburg police, planners and politicians are searching for solutions.

The suburban decline went largely undetected as Charlotte focused on reviving its distressed urban core.

The new trouble spots are spiraling far faster than the inner city did.

"Within five years we're reaching the need for revitalization strategies that used to take a neighborhood 25 years to reach," says planning director Debra Campbell.

It's a new quandary: The suburban hot spots face similar corrosive forces of crime, decay and absentee landlords.

Yet they're more isolated, away from social services and high-frequency bus lines.

While the city knows how to rebuild and clean up neighborhoods, Campbell says, it's harder to deliver complex human services aimed at helping families keep their homes, and at strengthening neighborhood groups to enforce standards.

"We can build hard core infrastructure," Campbell says. "What happens inside the house – that's where the public sector falls short."

Fast pace to trouble

Starter homes went up at a dizzying pace in the last decade,

particularly across northern Charlotte.

Land was available and demand was high, as newcomers poured into the city and investors bought homes to rent. Relaxed lending standards also created a new pool of buyers with moderate incomes and shaky credit histories.

Planners approved subdivision after subdivision of starter homes – from Catawba River Plantation in the west to Stewarts Crossing in the east. The houses are close together and look similar, with vinyl siding in neutral colors. The neighborhoods are tucked between established communities and more affluent subdivisions. Some adjoin industrial plants, interstates and power lines.

Since 1997, starter homes accounted for one-third of all single-family homes built south of I-85 in Charlotte – and more than half of those built north of the highway to the city line.

Now, many of these subdivisions face record foreclosures.

Just one default can hurt a neighborhood, but damage is profound when they're concentrated.

Foreclosures leave houses vacant, creating crime magnets. They also lure bargain-hunting buyers who convert houses to rentals.

Violent crime at rental homes in single-family neighborhoods happens at three times the rate of crime at owner-occupied homes, according to Charlotte-Mecklenburg police. The property crime rate is 1.6 times higher.

"When you have vacant houses, people can do all kinds of things," says police chief Stephens. "We're even seeing spillover to neighborhoods around them."

In Peachtree Hills, police are summoned nearly 300 times a year, mostly for property crimes in the 147 homes. But the 4-year-old neighborhood, near Sunset Road, has also seen robberies, shootings and gang displays more commonly associated with violent urban areas – not new subdivisions.

Fourteen-year-old Devon Smith was shot dead there in July. Graffiti memorializes his name on the sidewalks and benches. Spray paint also proclaims "Bloods 4 Life" and "PT Blood."

"All I wanted was a safe place with some backyard space for my son to run around, but that's not what we got," says Stacy Hall, 36, a medical claims processor and single mom, whose Peachtree home was burglarized last year. They got away with \$110 in day care money. And in November, she arrived home to find a police helicopter hovering and officers chasing men through her yard.

"I was like, 'Where am I? L.A. or something?'

A Chicago study found that when the foreclosure rate increases 1 percentage point in a neighborhood, its violent crime rate jumps 2.3 percent.

Near UNCC, Charlotte's Northridge Village, saw violence spike last year, as a neighborhood gang took on rivals in nearby Hidden Valley. Police made arrests and violence has dropped, but now property crime is climbing again in the neighborhood where one in three homes lapsed into foreclosure.

In 13 neighborhoods at the heart of Charlotte's most concentrated foreclosure areas, police recorded 52 violent crimes and 395 property crimes last year. That's not as high as troubled inner-city areas, but it's up 33 percent in three years and it's surprising in new suburbs.

Calls for police assistance in these areas jumped 28 percent in



PHOTOS BY TODD SUMLIN - tsumlin@charlotteobserver.com

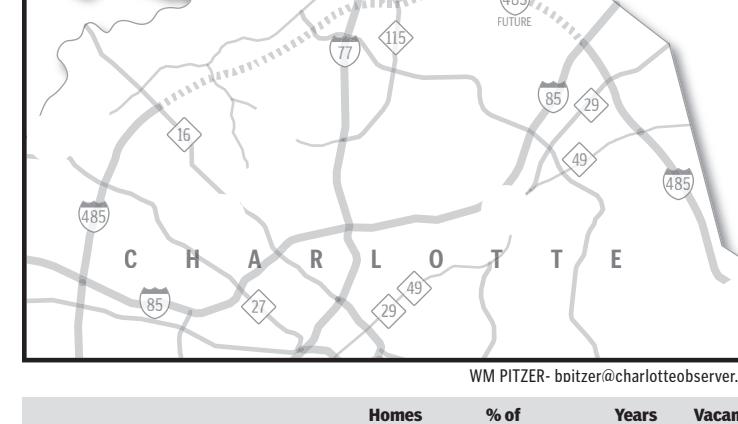
Areas with high concentrations of foreclosures

Thirteen starter-home neighborhoods are at the core of Charlotte's highest concentrations of foreclosures. Since 2003, these communities had about 750 foreclosures, or about 26 percent of homes. That compares with fewer than 5 percent for homes countywide.

High concentrations of foreclosures lead to vacant homes, increased rentals and crime.

Another 40 neighborhoods with foreclosure rates ranging from 15 percent to more than 40 percent are scattered across the same swath across north Charlotte.

The chart at right shows foreclosures since 2003.



WM PITZER - bpitzer@charlotteobserver.com

Neighborhood	Homes foreclosed	% of homes	Years built	Vacant/rental
1 Barrington	41	39%	2001-2002	25%
2 Brookmere	95	22%	1999-2006	16%
3 Catawba River Plantation	97	22%	2000-2006	22%
4 Fairstone	54	27%	1999-2004	16%
5 Grass Meadow	35	26%	2002-2005	24%
6 Hemby Woods	78	24%	1997-2006	19%
7 Linda Vista Village	25	40%	2002-2004	27%
8 Northridge Village	77	36%	1998-2005	29%
9 Peachtree Hills	32	22%	2002-2006	50%
10 Sinclair Place	23	16%	1999-2003	16%
11 Stewarts Crossing	51	33%	1999-2001	15%
12 Wildwood Meadows	61	15%	1997-2002	8%
13 Windy Ridge	81	61%	2002-2005	61%

SOURCE: Observer analysis of Mecklenburg property records.

three years, while calls citywide dropped 11 percent.

Housing complaints and nuisance calls are climbing in some neighborhoods, too.

In Hemby Woods, inspectors last year had 256 cases of overgrown grass, junked cars and heaping trash piles – unusually high for one suburban neighborhood.

In Sinclair Place, Thomas Bautista says he's repeatedly called for code enforcement in his northern Charlotte subdivision.

The house next door is dark and vacant – in foreclosure and scheduled for sale Tuesday.

"This house has been a real pain," says Bautista, 23, a Huntersville police officer who parks his patrol car on the street when he's off duty.

Still, thieves broke in twice next door. Over the summer, Bautista finally paid a yard man \$110 to cut the four-foot-tall grass because he kept seeing snakes, near where his children play.

He tried to sell in 2005 but learned from Realtors that his \$112,000 home would command only \$97,000.

"It's bad, especially if you have people over for family reunions or birthday parties and the house

next door looks so bad," he says. "You never know, with vacant houses like that, they could become a drug house or homeless people will break into them in a heartbeat."

Police saw warning signs

Jason Helton knew something was wrong in Brookmere in 2005. He had recently joined Charlotte's police department and was assigned to patrol the recently built subdivision.

"I kept seeing a lot of juvenile delinquency, curfew violations, vandalism and hanging out at vacant homes," Helton recalls. "I'd

leaguered as moving trucks come and go. Some owners got out before prices fell; others sold for losses. Then, there are those who are riding things out.

Like Stacy Hall.

She bought a home in Peachtree Hills for \$129,000 early last year, and moved in with her 3-year-old son. Houses were still being built and her street looked good. She didn't know builders were selling homes to investors from California and New York and New Jersey, or that a handful of homeowners had defaulted on their loans.

Hall also didn't know crime was rising, or that gunshots would sometimes wake her.

"I was born and raised in Queens, in the middle class, and I never had these problems," Hall says.

But Hall's fighting to change things.

After months of trying, she finally revived Peachtree's homeowners' association.

Its first move was to persuade Duke Power not to cut off the street lights. Peachtree was \$4,000 behind on its electric bill.

Next, a letter went out to all property owners: Pay your dues or we'll put a lien on your home.

Now, Hall and her colleagues want to spruce things up.

"I'm not giving up," she says. "I love my home ... I just want things to get better."

Staff writer Stella M. Hopkins contributed.

— LIZ CHANDLER: 704-358-5063

How we did the stories

For these stories exploring how foreclosures influence single-family neighborhoods, the Observer analyzed the pattern of more than 10,000 foreclosures since 2003 in Mecklenburg County.

The county was divided into a grid of squares about the size of a typical city block. Blocks with above-average concentrations of foreclosures are shaded on the 1A map. The darkest shade represents the highest density – one foreclosure for every 2 to 3 acres.

Charlotte-Mecklenburg police provided information on crime and calls for service in 13 neighborhoods at the core of the city's highest concentrations of foreclosures.

The Observer adjusted for growth in figuring changes in crime and call rates.

The Observer estimated the portion of rental and vacant homes in the 13 neighborhoods by comparing the addresses of houses and their owners in county property records.

The anatomy of a foreclosure crisis

A changing mortgage model

Until the 1980s, mortgage loans mostly were made by local savings & loans organizations. If the homeowner defaulted, the S&L lost money. That motivated lenders not to saddle customers with loans they couldn't afford.

But such caution dissolved in the 1990s. Loans became mostly arranged by independent mortgage brokers, funded by national companies and sold to investors. The brokers and lenders were paid upfront, and each loan was divided among many investors, so they lost relatively little if the loan defaulted.

Loans became easier

Meanwhile, government officials relaxed loan qualifying standards in the 1990s so more people could become homeowners. Lenders more frequently offered subprime mortgages, which are loans that carry higher rates to borrowers whose credit histories are not sufficient to qualify for a conventional mortgage. Some programs allowed customers to buy houses with little or no money down.

Trouble arrives

Eventually, many homeowners faced a perfect storm. Monthly mortgage payments rose sharply on loans with adjustable interest rates. Borrowers who fell behind on payments often couldn't sell because their home value dropped and they owed more than the home was worth.

Starter-home nightmare

In Mecklenburg County, one of the nation's largest builders, Beazer Homes, has built at least 10 starter-home neighborhoods with foreclosure rates above 20 percent. An Observer investigation found the company arranged larger loans than some buyers could afford, contributing to eventual foreclosures. Federal authorities, including the FBI, are investigating the company, and Beazer announced in October that it found evidence that some employees violated federal housing regulations.

Other loans investigated

The Observer also found that one Charlotte company, Realty Place, funneled thousands of questionable homebuyers into newly built neighborhoods that eventually had high foreclosure rates. The company often helped those customers qualify for loan programs, funded by builders, that were seldom appropriate for lower-income families. The N.C. Real Estate Commission has launched an investigation into Realty Place.

Searching for a solution

In the face of millions of potential foreclosures to come in the next two years, the White House announced an agreement last week with major mortgage companies to freeze low introductory "teaser" rates for five years on some sub-prime loans. The plan, however, is voluntary for lenders and would only apply to people who purchased houses after 2005. That would disqualify most homeowners facing foreclosure, including thousands of Charlotte-area homeowners who purchased homes earlier than 2005 and are struggling to pay an adjustable rate mortgage that already has reset at a higher rate.

The availability of mortgage loans for people with lower incomes or credit problems let millions of Americans buy their first home in the last decade. But the lure of easy credit – plus a system in which lenders were largely protected from defaults – resulted in many people borrowing more than they could afford.